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KAFOURY, ARMSTRONG & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Honorable Kathy Augustine
State Controller

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nevada, as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Nevada's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit:

Government-Wide Financial Statements

- the financial statements of the Housing Division, which represent 63.1 percent of the assets and 16.0 percent of the revenues of the business-type activities;
- the financial statements of the University and Community College System of Nevada and the Colorado River Commission, both of which are discretely presented component units.

Fund Financial Statements

- the financial statements of the Housing Division Enterprise Fund;
- the financial statements of the Self Insurance and Insurance Premiums Internal Service Funds, which in the aggregate represent less than one percent of the assets and 6.4 percent of the revenues and additions of the aggregate remaining fund information;
- the financial statements of the Pension Trust Funds, which in the aggregate represent 87.8 percent of the assets and 48.0 percent of the revenues and additions of the aggregate remaining fund information.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above-mentioned funds and entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nevada, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the State of Nevada's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 19 through 30, the Budgetary Comparison Schedule, the notes to required supplementary information-budgetary reporting, the schedule of funding progress and the schedule of infrastructure condition and maintenance data, collectively on pages 89 through 93, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Nevada's basic financial statements. The combining statements and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections as listed in the table of contents have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and accordingly, we express no opinion on them.

Kafoury, Armstrong & Co.

Reno, Nevada
December 15, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

State of Nevada management provides this discussion and analysis of the State of Nevada's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Nevada is for the fiscal year ended June 30, 2003. We encourage readers to consider this information in conjunction with the additional information furnished in the letter of transmittal.

Highlights

Government-wide:

Net Assets – The assets of the State exceeded its liabilities at the close of the fiscal year ended June 30, 2003 by \$4.305 billion (reported as *net assets*). Of the \$4.305 billion in net assets, \$1.234 million was restricted and not available to meet the State's general obligations.

Changes in Net Assets – The State's total net assets decreased by \$51.8 million in fiscal year 2003. Net assets of governmental activities decreased by \$27.9 million (a 0.8% decrease), while net assets of the business-type activities showed a decrease of \$23.9 million (a 2.9% decrease).

Fund-level:

At the close of the fiscal year, the State's governmental funds reported a combined ending fund balance of \$1.83 billion, a decrease of \$134.6 million from the prior year, attributable primarily to the reduction of the Stabilize the Operations of State Government ("Rainy Day") fund. Of this amount, \$211.5 million represents the *unreserved fund balance*.

The State's enterprise funds reported combined ending net assets of \$813.1 million, a decrease of \$24.4 million from the prior year, attributable primarily to the Unemployment Compensation fund. Of this amount, \$8.2 million represents the *unrestricted net assets*.

The State's fiduciary funds reported combined ending net assets of \$14.7 billion, an increase of \$919 million from the prior year, attributable primarily to the Pension Trust Funds and the Investment Trust Funds.

Long-term Debt (government-wide):

The State's long-term debt obligations decreased by \$156 million (a 4.2% decrease) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is an introduction to the State of Nevada's basic financial statements which is comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Comprehensive Annual Financial Report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements:

The *government-wide financial statements* are designed to provide readers with a broad overview of the State of Nevada's finances in a manner similar to the private sector. They take into account all revenues and expenses connected with the fiscal year regardless of when cash is received or paid.

The government-wide financial statements include the following two statements:

The *statement of net assets* presents *all* of the State's assets and liabilities, with the difference between the two reported as "net assets". The statement combines and consolidates all of the State's current financial resources with capital assets and long-term obligations. Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating.

The *statement of activities* presents information showing how the State's net assets changed during the most recent fiscal year. The statement reveals how much it costs the State to provide its various services, and whether the services cover their own costs through user fees, charges or grants, or are financed with taxes and other general revenues. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of cash flows. Therefore, some revenue and expenses reported in this statement will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both government-wide statements above report three types of activities:

Governmental Activities – Taxes and intergovernmental revenues primarily support these activities. Most services normally associated with State government fall into this category, including general government, health and social services, education and support services, law, justice and public safety, regulation of business, transportation, recreation and resource development, intergovernmental, interest on long-term debt and unallocated depreciation.

Business-type Activities – These activities are intended to recover all, or a significant portion, of the costs of the activities by charging fees to customers. The Housing Division and Unemployment Compensation are examples of the State's business-type activities.

Discretely Presented Component Units – Component units are legally separate organizations for which the elected officials of the government are financially accountable or have significant influence in governing board appointments. The State has two discretely presented component units – the University and Community College System of Nevada (University System) and the Colorado River Commission. Complete financial statements of the individual component units can be obtained from their respective administrative offices.

Fund Financial Statements:

A fund is an accounting entity consisting of a set of self-balancing accounts to track funding sources and spending for a particular purpose. The State's funds are broken down into three types:

Governmental funds – Most of the State's basic services are reported in governmental funds. These funds focus on short-term inflows and outflows of expendable resources as well as balances left at the end of the fiscal year available to finance future activities. These funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

The governmental fund financial statements focus on major funds and provide additional information that is not provided in the government-wide financial statements. It is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation is provided between the governmental fund statements and the governmental activities in the government-wide financial statements.

Proprietary funds – When the State charges customers for the services it provides, whether to outside customers (enterprise funds) or to other State agencies (internal service funds), the services are generally reported in the proprietary funds. Proprietary funds apply the accrual basis of accounting utilized by private sector businesses, and there is a reconciliation between the government-wide financial statement business-type activities and the enterprise fund financial statements. Because internal service fund operations primarily benefit governmental funds, they are included with the governmental activities in the government-wide financial statements.

Fiduciary funds – These funds are used to account for resources held for the benefit of parties outside the state government. For instance, the State acts as a trustee or fiduciary for its employee pension plans, and it is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. Fiduciary funds are reported using the accrual basis of accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Notes to the Financial Statements:

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the government-wide and fund financial statements.

Required Supplementary Information:

The required supplementary information includes budgetary comparison schedules for the General Fund and major special revenue funds, along with notes and a reconciliation of the statutory and generally accepted accounting principles (GAAP) fund balances at fiscal year-end. This section also includes a schedule of funding progress for certain pension trust funds and a schedule of infrastructure condition and maintenance data.

Other Supplementary Information:

Other supplementary information includes combining financial statements for non-major governmental, non-major enterprise, all internal service and all fiduciary funds. The non-major funds are added together, by fund type, and presented in single columns in the basic financial statements. Other supplementary information also contains budgetary schedules of total uses for the General Fund and special revenue fund budgets, as well as a schedule of revenues for non-major special revenue fund budgets.

Government-wide Financial Analysis

The State's overall financial position and operations for the fiscal years ended June 30, 2003 and 2002 for the primary government are summarized in the following statements based on the information included in the government-wide financial statements. The FY02 columns have had certain items reclassified to be consistent with FY03 reporting, but the total net assets at June 30, 2002 remain unchanged:

State of Nevada's Net Assets-Primary Government (expressed in thousands)							
	Governmental Activities		Business-type Activities		Total		Total Change
	2003	2002	2003	2002	2003	2002	2003-2002
Assets							
Current and other assets	\$ 3,716,849	\$ 3,696,929	\$ 2,138,846	\$ 2,285,931	\$ 5,855,695	\$ 5,982,860	\$ (127,165)
Net capital assets	4,018,876	3,924,966	3,153	2,764	4,022,029	3,927,730	94,299
Total assets	7,735,725	7,621,895	2,141,999	2,288,695	9,877,724	9,910,590	(32,866)
Liabilities							
Current liabilities	1,881,999	1,715,839	88,523	79,301	1,970,522	1,795,140	175,382
Long-term liabilities	2,361,382	2,385,833	1,240,542	1,372,536	3,601,924	3,758,369	(156,445)
Total liabilities	4,243,381	4,101,672	1,329,065	1,451,837	5,572,446	5,553,509	18,937
Net Assets							
Invested in capital assets, net							
of related debt	3,222,052	3,149,657	3,059	2,659	3,225,111	3,152,316	72,795
Restricted	432,125	402,535	801,846	826,190	1,233,971	1,228,725	5,246
Unrestricted (deficit)	(161,833)	(31,969)	8,029	8,009	(153,804)	(23,960)	(129,844)
Total net assets	\$ 3,492,344	\$ 3,520,223	\$ 812,934	\$ 836,858	\$ 4,305,278	\$ 4,357,081	\$ (51,803)

Net Assets:

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$4.305 billion at the end of 2003, compared with \$4.357 billion at the end of the previous year.

The largest portion of the State's net assets (\$3.225 billion or 75%) reflects its investment in capital assets such as land, buildings, improvements other than buildings, equipment, construction in progress, infrastructure and rights-of-way, less any related debt still outstanding that was used to acquire those assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets (\$1.234 billion or 29%) represents resources that are subject to external restrictions on how they may be used. The unrestricted balance is a *negative* \$153.8 million because the State issues general obligation bonds for discretely presented component units, the University System and Colorado River Commission (paid by Southern Nevada Water Authority), for which there are no offsetting assets included in the financial statements of the primary government.

At the end of the current fiscal year, the State is able to report positive balances in two of the three categories of net

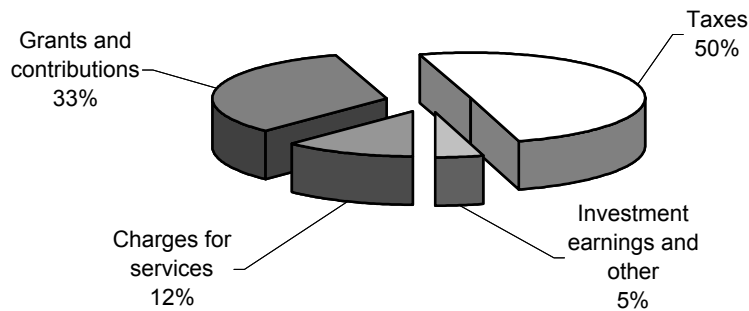
assets, both for the governmental activities and for the government as a whole. For the business-type activities the State is able to report positive balances in all three categories.

Changes in State of Nevada's Net Assets-Primary Government <i>(expressed in thousands)</i>							
	Governmental Activities		Business-type Activities		Total		Total Change
	2003	2002	2003	2002	2003	2002	2003-2002
Revenues							
Program revenues							
Charges for services	\$ 564,694	\$ 532,959	\$ 97,216	\$ 106,208	\$ 661,910	\$ 639,167	\$ 22,743
Operating grants and contributions	1,499,849	1,284,453	131,771	179,379	1,631,620	1,463,832	167,788
Capital grants and contributions	8,535	2,260	-	-	8,535	2,260	6,275
General revenues							
Sales and use taxes	760,891	724,399	-	-	760,891	724,399	36,492
Gaming taxes	735,652	697,482	-	-	735,652	697,482	38,170
Fuel taxes	253,951	242,670	-	-	253,951	242,670	11,281
Property taxes	95,808	99,234	-	-	95,808	99,234	(3,426)
Other taxes	445,162	415,210	250,325	240,608	695,487	655,818	39,669
Investment earnings	26,712	35,839	-	-	26,712	35,839	(9,127)
Other	181,267	147,228	-	2	181,267	147,230	34,037
Total Revenues	4,572,521	4,181,734	479,312	526,197	5,051,833	4,707,931	343,902
Expenses							
General government	195,351	184,934	-	-	195,351	184,934	10,417
Health and social services	1,749,723	1,554,450	-	-	1,749,723	1,554,450	195,273
Education and support services	1,459,802	1,372,265	-	-	1,459,802	1,372,265	87,537
Law, justice and public safety	432,066	440,559	-	-	432,066	440,559	(8,493)
Regulation of business	79,396	77,914	-	-	79,396	77,914	1,482
Transportation	384,247	349,025	-	-	384,247	349,025	35,222
Recreation and resource development	103,306	101,242	-	-	103,306	101,242	2,064
Intergovernmental - grant & revenue sharin	124,489	98,082	-	-	124,489	98,082	26,407
Interest on long-term debt	112,096	121,092	-	-	112,096	121,092	(8,996)
Unallocated depreciation	1,152	1,144	-	-	1,152	1,144	8
Unemployment insurance	-	-	377,395	407,241	377,395	407,241	(29,846)
Housing	-	-	71,927	76,904	71,927	76,904	(4,977)
Water loans	-	-	4,715	4,930	4,715	4,930	(215)
Workers' compensation and safety	-	-	19,274	19,581	19,274	19,581	(307)
Other	-	-	13,134	12,695	13,134	12,695	439
Total Expenses	4,641,628	4,300,707	486,445	521,351	5,128,073	4,822,058	306,015
Excess (deficiency) in net assets before contributions to permanent funds, special items and transfers	(69,107)	(118,973)	(7,133)	4,846	(76,240)	(114,127)	37,887
Contributions to permanent fund	15,952	8,759	-	-	15,952	8,759	7,193
Special item - Gain on sale of right-of-way	8,485	-	-	-	8,485	-	8,485
Transfers	16,791	19,238	(16,791)	(19,238)	-	-	-
Change in net assets	(27,879)	(90,976)	(23,924)	(14,392)	(51,803)	(105,368)	53,565
Net assets - beginning of year	3,520,223	3,611,199	836,858	851,250	4,357,081	4,462,449	(105,368)
Net assets - end of year	\$ 3,492,344	\$ 3,520,223	\$ 812,934	\$ 836,858	\$ 4,305,278	\$ 4,357,081	\$ (51,803)

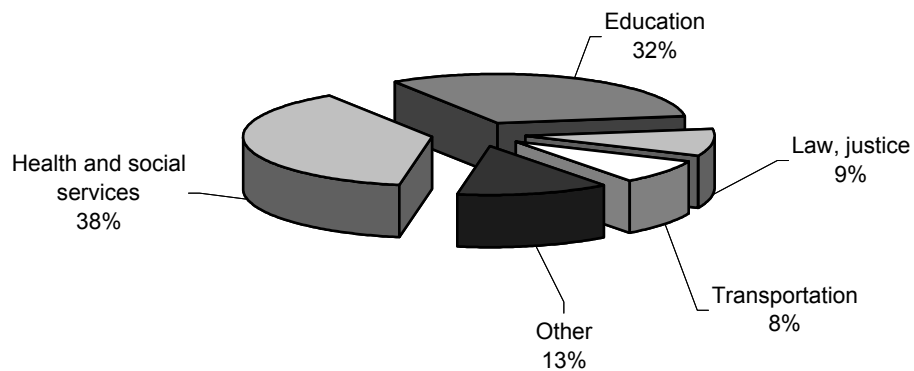
Changes in Net Assets:

Governmental activities –The net assets decreased by \$27.9 million or 0.8%. Approximately 50% of the total revenue came from taxes, while 33% was in the form of grants and contributions (including federal aid). Charges for various goods and services provided 12% of the total revenues (see chart below). The State's governmental activities expenses cover a range of services and the largest expenses were for health and social services (38%) and education (32%) (see chart below). In 2003, governmental activities expenses exceeded program revenues, resulting in the use of \$2.6 billion in general revenues, which were generated to support the government.

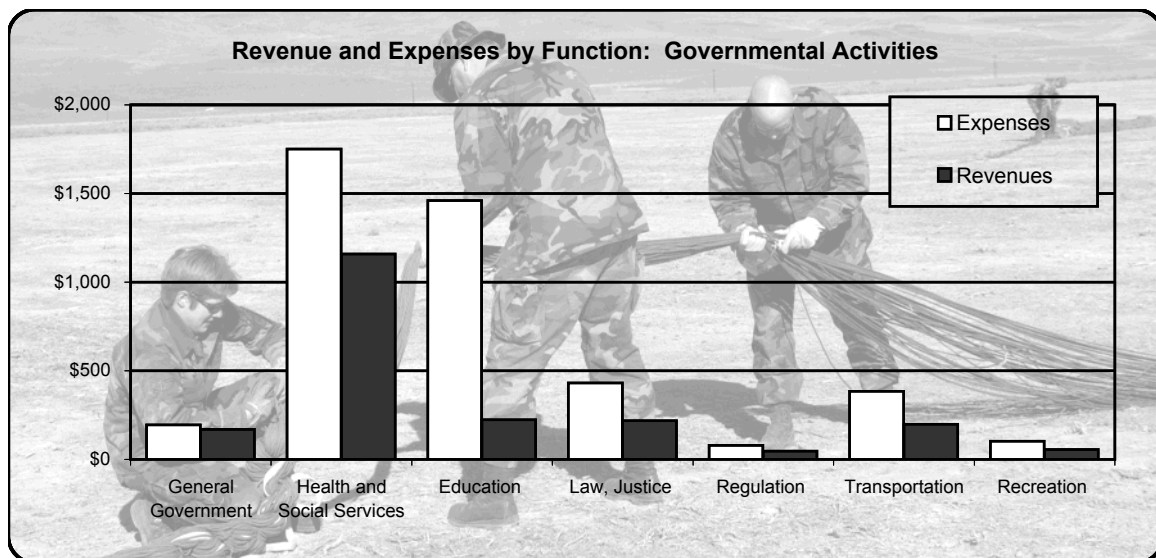
The following chart depicts the governmental activities revenues for the fiscal year:



The following chart depicts the governmental activities expenses for the fiscal year:

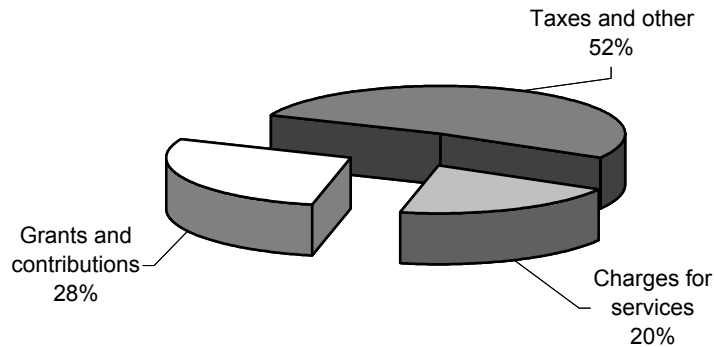


The following chart depicts the total program revenues and expenses for each function of governmental activities (expressed in millions):

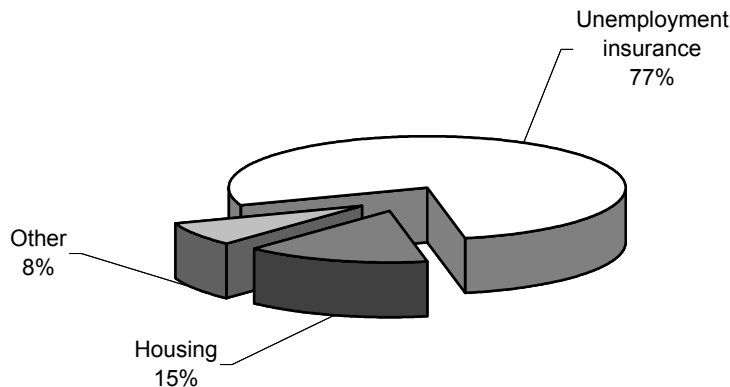


Business-type activities –The net assets decreased by \$23.9 million or 2.9%. Approximately 52% of the total revenue came from taxes and other sources, while 28% was in the form of grants and contributions (including federal aid). Charges for various goods and services provided 20% of the total revenues (see chart below). The State’s business-type activities expenses cover a range of services. The largest expenses were for unemployment compensation (77%) and housing (15%) (see chart below). In 2003, business-type activities expenses exceeded program revenues, resulting in the use of \$250 million in general revenues generated by and restricted to the Unemployment Compensation Fund.

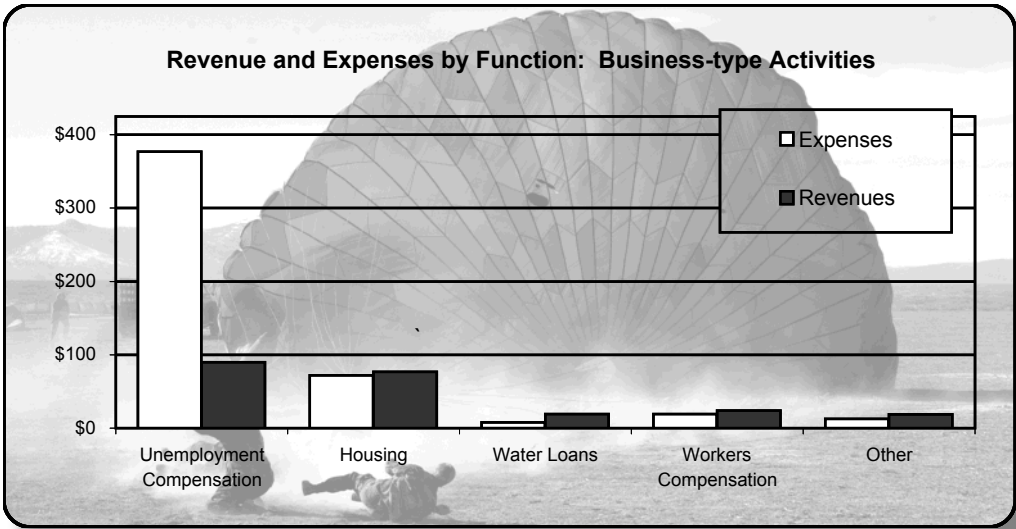
The following chart depicts the business-type activities revenues for the fiscal year:



The following chart depicts the business-type activities expenses for the fiscal year:



The following chart depicts the total program revenues and expenses for each function for business-type activities (expressed in millions):



In conclusion, the State government’s overall financial position deteriorated over the past fiscal year, with a \$27.9 million decrease in the net assets of the government-wide activities, caused primarily by the declines in the Stabilize the Operations of State Government (“Rainy Day”) Fund and the Insurance Premiums Fund, and a \$23.9 million dollar decrease in the net assets of the business-type activities, caused primarily by the decline in the Unemployment Compensation Fund. The economic information presented later in this discussion and analysis provides insight into the conditions of the State that have caused this to occur.

Financial Analysis of the State's Funds

Governmental Funds:

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of \$1.83 billion, a decrease of \$134.6 million in comparison with the prior year. Just less than 12% of this total amount constitutes unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior fiscal year, to pay debt service, to be held in permanent trust funds or for a variety of other purposes. The major governmental funds are discussed individually below:

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the total General Fund balance was \$109.5 million, of which a negative \$119.9 million was unreserved. The fund balance increased by \$58.8 million during the current fiscal year, which is a 115.8% increase from the prior year. This increase was caused primarily by the transfer of \$135 million from the Stabilize the Operations of State Government ("Rainy Day") fund.

The following schedule presents a summary of revenues of the General Fund for the fiscal years ended June 30, 2003 and 2002 (expressed in thousands). Other financing sources are not included. The 2002 revenues have been reclassified by including payments from a discretely presented component unit (the University System) in other revenues, while last year these payments were reported as other financing sources. The reclassification was made to be consistent with 2003 reporting:

General Fund Revenues (Expressed in thousands)						
	2003		2002 (as reclassified)		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Gaming taxes, fees and licenses	\$ 720,115	20.8%	\$ 681,625	22.2%	\$ 38,490	5.6%
Sales taxes	756,962	21.9%	718,910	23.4%	38,052	5.3%
Intergovernmental	1,390,467	40.1%	1,104,440	36.0%	286,027	25.9%
Other taxes	388,777	11.2%	360,260	11.8%	28,517	7.9%
Licenses, fees and permits	118,012	3.4%	109,409	3.6%	8,603	7.9%
Sales and charges for services	35,695	1.0%	32,109	1.0%	3,586	11.2%
Interest and investment income	18,558	0.5%	24,474	0.8%	(5,916)	-24.2%
Other revenues	37,115	1.1%	36,125	1.2%	990	2.7%
Total revenues	<u>\$ 3,465,701</u>	<u>100.0%</u>	<u>\$ 3,067,352</u>	<u>100.0%</u>	<u>\$ 398,349</u>	<u>13.0%</u>

The total General Fund revenues increased 13%. The largest revenue source, intergovernmental revenues, is predominantly federal funds and there was a 25.9% increase in this category. This was due to the large increase in Medicaid and Welfare payments, which are partially reimbursed by the Federal Government. The 24.2% decrease in interest and investment income was due primarily to decreases in interest rates for short-term investments.

The following schedule presents a summary of expenditures by function of the General Fund for the fiscal years ended June 30, 2003 and 2002 (expressed in thousands). Other financing uses are not included. The 2002 expenditures have been reclassified by including payments to a discretely presented component unit (the University System) in the education function, while last year these payments were reported as other financing uses. The reclassification was made to be consistent with 2003 reporting:

General Fund Expenditures (Expressed in thousands)						
	2003		2002 (as reclassified)		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
General government	\$ 50,976	1.4%	\$ 69,584	2.1%	\$ (18,608)	-26.7%
Health and social services	1,648,928	45.6%	1,465,759	44.1%	183,169	12.5%
Education and support services	1,401,311	38.8%	1,308,223	39.3%	93,088	7.1%
Law, justice and public safety	288,368	8.0%	280,915	8.4%	7,453	2.7%
Regulation of business	60,820	1.7%	57,694	1.7%	3,126	5.4%
Recreation, resource development	81,061	2.2%	78,587	2.4%	2,474	3.1%
Intergovernmental	82,531	2.3%	66,901	2.0%	15,630	23.4%
Debt service	496	0.0%	705	0.0%	(209)	-29.6%
Total expenditures	<u>\$ 3,614,491</u>	<u>100.0%</u>	<u>\$ 3,328,368</u>	<u>100.0%</u>	<u>\$ 286,123</u>	<u>8.6%</u>

The total General Fund expenditures increased 8.6%. Expenditures for health and social services increased over \$183 million or 12.5% due to the increases in Medicaid, Welfare and other entitlement programs because of the continuing economic impact of September 11, 2001.

The State Highway Fund is a special revenue fund used to account for the maintenance, regulation and construction of public highways and is funded through vehicle fuel taxes, federal funds and other charges. The fund balance decreased by \$21.4 million during the current fiscal year, which is a 9.6% decrease from the prior year. The revenues from taxes and fees have increased because of the population growth in the State, and the highway projects are progressing at a faster rate than in the past year. During FY02 the projects were delayed because of difficulty in obtaining rights-of-way and fear of an economic downturn. The unreserved fund balance is \$69.6 million.

The Municipal Bond Bank Fund is a special revenue fund used to account for revenues and expenditures associated with buying local government bonds with proceeds of State general obligation bonds. The fund balance decreased by \$18.9 million during the current fiscal year, which is a 1.7% decrease from the prior year. This decrease is due to transfers to debt service in excess of interest income, and a reduction in bond issuances.

The Consolidated Bond Interest and Redemption Fund is a debt service fund used to accumulate monies for the payment of leases and principal and interest on general obligation bonds of the State. The fund balance increased by \$10.9 million during the current fiscal year, which is a 28.8% increase from the prior year. The increase was due primarily to the absence in FY03 of a one-time \$10 million transfer out to the General Fund of accumulated excess earnings that was made in FY02.

The Stabilize the Operations of State Government Fund (also known as the "Rainy Day" fund) is a special revenue fund used to account for funds set aside according to Nevada Revised Statutes (NRS) 353.288 to be expended only if actual revenues for the biennium fall short by 5% or more from anticipated revenues, or if the Legislature and the Governor declare a fiscal emergency. During FY03 a transfer of \$135 million was made to the General Fund, as approved by the legislature through Assembly Bill 252 of the 2003 session and signed by the Governor. A fund balance of \$1.3 million remains after the transfer to the General Fund.

Proprietary Funds:

The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Proprietary funds are comprised of two types: enterprise funds and internal service funds. Enterprise funds are used when goods or services are provided primarily to parties outside of the State while internal service funds are used when goods or services are provided primarily to State agencies.

Enterprise Funds – There are only two *major* enterprise funds, the Housing Division fund and the Unemployment Compensation fund. The combined net assets of the two major funds comprise 81% of the total combined net assets of all enterprise funds. Combined net assets of enterprise funds decreased by \$24.4 million in 2003. The major enterprise funds are discussed below:

The Housing Division Fund provides low interest loans to first-time homebuyers with low or moderate household incomes. The net assets increased by \$4.9 million during the current fiscal year, although the results of operations were down 38% from last year. There was a decline in income primarily attributable to a drop in investment income and a decrease in mortgages yielding more than 6%.

The Unemployment Compensation Fund accounts for the payment of unemployment compensation benefits to unemployed State citizens. The net assets decreased by \$36.6 million during the current fiscal year, which is a 6.7% decrease from the prior year. The unemployment claims paid this year were down slightly at 7% compared to the previous year, but are still 57% higher than in FY01, before the events of September 2001. Additionally, the State received a federal Reed Act distribution of \$69 million in FY02, but no such distribution was received in FY03.

Internal Service Funds – The internal service funds charge State agencies for goods and services such as building maintenance, purchasing, printing, insurance, data processing and motor pool in order to recover the costs of the goods or services. Rates charged to State agencies for the operations of internal service funds are adjusted in following years to offset gains and losses. Because these are allocations of costs to other funds, they are not included separately in the government-wide financial statements but are eliminated and reclassified as either governmental activities or business-type activities. In 2003, these funds showed a net loss of \$13.5 million, for a final deficit of \$38.5 million. The two funds contributing most to the deficit are:

The Self-Insurance Fund accounts for group health, life and disability insurance for State employees and retirees and certain other public employees. The fund had a net gain of almost \$1 million for the year, but still retains a deficit of \$15 million due to losses from prior years. This year's gain was accomplished with a 23% increase in premium income versus a 13% increase in claims expense.

The Insurance Premiums Fund accounts for general, civil (tort), auto and property casualty liabilities of State agencies. The deficit increased by \$10.2 million during fiscal year 2003, to a total deficit of \$42.8 million. The fund has sustained substantial operating losses in recent years, as the claims and insurance premiums expenses continue to exceed the premium income. Nevada Revised Statute 331.187 provides that if money in the Fund is insufficient to pay a tort claim, the claim is to be paid from the reserve for statutory contingency account.

Analysis of General Fund Budget Variations

As was the case in FY02, the State's tourism and gaming based economy continued to experience during FY03 the economic downturn affecting the rest of the country. Projected revenue shortfalls mirrored the national economic condition. The General Fund shortfall of revenues and other sources was \$289 million or 6.2% less than the final budget.

The increase in the General Fund expenditures and other uses budget from original to final was \$831 million. Some of the increase was due to \$104 million in balances carried forward from the prior fiscal year. Other differences were due to the original budget consisting only of budgets subject to the General Appropriations Act. Many budgets are not part of this original budget and are added later. Some of these revisions included: \$5 million to the constitutional agencies category for voting machine improvements; \$238 million to the education category for the Distributive School Account, federal grants to enhance reading skills and career programs, health insurance and utilities costs; \$35 million for a new museum in Las Vegas; \$54 million government-wide for the State and University System employees' salary adjustment; \$230 million to the human services category for increased Medicaid and welfare costs; and \$27 million to the public safety category for emergency management and flood relief.

During FY03, State agencies that received General Fund appropriations and the University System were asked to cut 3% from their budgets; as a result \$39 million was returned to the General Fund. These savings combined with other cost-saving measures allowed the actual General Fund expenditures and other uses to be \$453 million lower than the final budget. The revenues and other sources budget shortfall addressed above was more than offset with savings in the expenditures and other uses budget, resulting in an actual ending budgetary fund balance \$163 million higher than the final budget projection.

Capital Assets and Debt Administration

Capital Assets:

The State's capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$4.5 billion, net of accumulated depreciation of \$520 million, leaving a net book value of \$4 billion. This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure, rights-of-way, construction in progress, and software costs. Infrastructure assets are items that are normally immovable, such as roads and bridges.

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense on infrastructure. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State; 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained; and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. To monitor the condition of the roadways the State uses the International Roughness Index (IRI). The State has set a policy that it will maintain a certain percentage of each category of its roadways with an IRI of less than 80 and will also maintain its bridges so that not more than 10% are structurally deficient or functionally obsolete. The Department of Transportation conducts a biennial condition assessment of roadways and bridges; however the 2003 assessment was not available in time for this report. Based on the most recent information available, the State has met the requirement of the modified approach, as follows:

Condition Level of the Roadways
Percentage of roadways with an IRI of less than 80

	Category				
	I	II	III	IV	V
State Policy-minimum percentage	70%	65%	60%	40%	10%
Actual results of 2001 condition assessment	83%	77%	86%	65%	19%

Condition Level of the Bridges
Percentage of substandard bridges

State Policy-maximum percentage	10%
Actual results of 2001 condition assessment	6%

The estimated amount necessary to maintain and preserve infrastructure assets at target condition levels exceeded the actual amounts of expense incurred for fiscal year 2003 by \$18 million. This is due to an overall trend in the Department of Transportation to delay construction and maintenance/preservation activities of assets as a result of the uncertainty of the economy created by the events of September 11th. Even though actual spending for maintenance and preservation of infrastructure assets fell below estimated, condition levels are expected to continue to meet or exceed the target condition levels, as the most recent condition assessment indicates that the State already exceeds the established benchmarks in all categories. See the Schedule of Infrastructure Condition and Maintenance Data for more detailed information about the State's infrastructure.

To keep pace with the demands of a growing population and economy, the State also has a substantial capital projects program. The following is a summary of major projects in progress during 2003 (expressed in millions):

	Expended by June 30, 2003	Total Budget
High Desert State Prison, Phase I, Indian Springs	\$ 91.6	\$ 91.7
High Desert State Prison, Phase II, Indian Springs	45.2	46.7
High Desert State Prison, Phase III, Indian Springs	0.7	12.2
Integrated Financial System	25.9	25.9
Southern Nevada Veterans Home, Las Vegas	20.8	21.1
Nevada National Guard State Command Complex, Carson City	8.9	11.1
Nevada Highway Patrol Office Building, Las Vegas	1.1	15.2
Nevada Mental Health Institute Hospital, Sparks	10.0	10.0

The total increase in the State's capital assets for the primary government for the current fiscal year was \$212 million or about 5.4% in terms of net book value. This increase included current expenditures to purchase capital assets and completed projects from construction in progress. Depreciation charges for the year totaled \$59 million.

Additional information on the State's capital assets can be found in Note 7 to the financial statements.

Debt Administration:

As of year-end, the State had \$3.602 billion in long-term debt outstanding, compared to \$3.758 billion last year, a decrease of \$156 million or 4.2% during the current fiscal year. The key factor in this decrease was the net reduction in Housing Division bonds of \$129 million.

The most current bond ratings from Fitch, Standard and Poor's and Moody's Investor Service were AA+, AA and Aa2, respectively. These ratings reflect a good economic base and sound financial management. The Constitution of the State limits the aggregate principal amount of the general obligation debt to 2% of the total reported assessed property value of the State.

New bonds issued during the 2003 fiscal year and still outstanding at year-end were (expressed in thousands):

General Obligation Capital Improvement, Cultural Affairs and Refunding	07/01/2002A	\$ 60,915
General Obligation TMCC	07/01/2002B	8,500
General Obligation Natural Resources	07/01/2002C	8,000
Nevada Municipal Bond Bank Project 75 and 76	07/01/2002D	5,000
Housing Multi-unit St. Rose Seniors	08/28/2002	14,770
Housing Multi-unit Bluffs at Reno	08/29/2002	21,000
Housing Multi-unit Sunset Canyon	11/21/2002	12,900
Housing Multi-unit Los Pecos	11/21/2002	11,000
Housing Multi-unit Whittell Pointe	12/05/2002	8,290
Housing Multi-unit Wood Creek	12/05/2002	8,920
Housing Multi-unit Silver Terrace	01/29/2003	6,060
Housing Multi-unit Pinewood	02/27/2003	31,750
Housing Multi-unit Community Gardens	04/29/2003	7,435
Housing Multi-unit Cedar Village	04/30/2003	6,205

This list of new bonds does not agree completely with the schedule of additions to bonds payable as seen in Note 8 to the financial statements, due to the inclusion of accreted interest, deferred items and bonds redeemed prior to year-end.

Additional information on the State's long-term debt obligations can be found in Note 8 to the financial statements and in the Statistical Section.

Economic Condition and Outlook

Nevada's economy has rebounded from its struggles that began in mid-2001. Job growth has increased, retail activity is growing and visitors have returned. Gaming establishments are reporting increased activity. Not surprisingly, however, the State has not been able to turn in the kind of growth that characterized economic conditions prior to the slowdown. Still, as has been the case over the past several years, Nevada continues to outperform the nation in nearly every measure of economic health. During the growth period of the 1990s, Nevada outperformed essentially every other state in the nation. During the sluggish start to this decade, Nevada held up better than others, despite taking a significant economic hit in the months following the terrorist attacks of September 2001. As conditions have gradually improved, Nevada is, once again, leading the way.

Much the same is true on the revenue front, which is very much dependent upon underlying economic fundamentals in the State. General Fund revenue growth in FY03 did return to more normal levels. However, the ground lost in the prior year was not made up.

Perhaps surprisingly, it has been determined that the most recent recession in the U.S. economy, which began in March 2001, officially ended just eight months later, in November. However, given the inability of the national economy to generate new jobs, unemployment remains stubbornly high, and the current upturn in the business cycle does not feel like a true recovery to many.

Visitor Volume:

Nevada's tourism-based economy is driven by visitor volume. While visitor growth was easing prior to then, the events of September 2001 reversed what gains there were, pushing down visitor numbers. Over the September 2001-August 2002 period, visitor volume declined in 11 of 12 months. However, losses moderated as the period unfolded. In late-2002 and early-2003, visitor growth once again turned positive, averaging over 5%. Given the uncertainties surrounding the war in Iraq, sluggishness once again set in, but recent trends point to a return to growth.

Labor Markets:

Nationally, jobs have been on the decline since July 2001; in recent months, job declines have consistently been in the 0.3%-0.4% range. In Nevada, however, job levels have increased in each of the past 11 months. In recent months, job gains have been averaging about 1.7%. In the months immediately following the events of September 2001, job levels declined in Nevada, most notably in those sectors dependent on the tourism economy. As recently as the first few months of 2001, jobs were growing at a rate in excess of 4% in Nevada. Despite the increase in job levels during FY03, room for improvement remains to reach historical levels.

Taxable Sales:

The State's largest General Fund revenue source is the sales tax. Here, too, the economy's slowdown during FY02 and subsequent rebound in FY03 is evident. Total taxable sales grew at just a 0.8% pace in FY02. But in FY03, sales growth accelerated to a 6.3% pace. Sales in eating and drinking establishments represent the largest sales category. The impact of September 2001's events on tourism are clear in looking at developments in these sales. During FY01, sales were up 8%, driven, in part, by continued visitor volume growth in response to the completion of a number of new megaresort projects on the Las Vegas Strip. In FY02, sales managed just a 0.5% gain. In FY03, driven by improving visitor trends, eating and drinking sales turned in a solid gain of 5.3%. The State's second largest sales category, autos, has held up remarkably well in recent years. In both FY02 and FY03, sales growth settled in the high-single digits, spurred on by attractive financing packages.

Gaming Win:

Gaming activity soared during the late-1990s in response to the most recent round of expansions. Even in FY01, gaming win grew at a 2.5% rate. However, conditions in FY02 deteriorated markedly throughout much of the year. When all was said and done, win ended the year off 2.8% from FY01. Declines were especially pronounced on the games and tables side, where win was off by 7.3%. This most likely is the result of a fairly sharp decline in international travel and an associated reduction in "high-roller" play. For the less volatile slots, win was off just 0.4%. In FY03, improvement, as with other measures of the State's economy, is evident. Total gaming win is up 1.1%, with fairly equal contributions from both the slots and games and tables components.

2003 Legislative Sessions:

A significant result of the 2003 regular session and two special sessions was the passage of Senate Bill 8, which was signed into law by the Governor on July 22, 2003. This measure represented the largest tax increase in State history, projected to raise \$836 million in new revenue over two years. The bill included higher tax rates on the existing cigarette, liquor, gaming and business license taxes, as well as new levies on payroll, real estate and entertainment. These new revenues should allow the State to continue to provide the services required by its growing population through the next several years.

All told, Nevada appears to be emerging from the economic slowdown in solid shape. While a return to the extremely strong growth of the 1990s is not likely, economic trends in Nevada are still expected to be quite impressive, both in absolute terms and relative to the rest of the nation.

Requests for Information

This financial report is designed to provide a general overview of the State of Nevada's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: State of Nevada, Office of the State Controller, 101 N. Carson Street, Suite 5, Carson City, NV 89701-4786.



U.S. Navy Seal Team parachuting from rear ramp of C130 aircraft for high altitude combat jump during a training mission at Hawthorne Army Depot, NV.



Seal Team practicing airborne seizure of the Hawthorne Airport.

Basic Financial Statements



Members of the U.S. Coast Guard, in conjunction with the Nevada National Guard, air drop people and equipment into Lake Tahoe as part of a training exercise which enhances cooperation and teamwork between different services.

Statement of Net Assets

State
of
Nevada

June 30, 2003 (Expressed in Thousands)

Assets	Primary Government		Component Units	
	Governmental Activities	Business-Type Activities	Colorado River Commission	University System
Cash and pooled investments	\$ 833,315	\$ 503,091	\$ 16,161	\$ 97,858
Investments	1,198,617	503,324	-	378,026
Collateral on loaned securities	693,077	45,349	17,866	-
Food stamp coupons	41	-	-	-
Internal balances	587	(587)	-	-
Due from the state	-	-	233	69,239
Accounts receivable	30,420	840	7,556	72,294
Taxes/assessments receivable	486,927	83,484	-	-
Intergovernmental receivables	388,851	2,160	-	27,619
Accrued interest and dividends	23,193	10,251	93	-
Mortgages receivable	-	822,860	-	-
Notes/loans receivable	961	46,071	-	10,673
Other receivables	3,732	-	-	-
Inventory	7,959	1,491	-	5,382
Prepaid expenses	46,776	31	43,236	-
Deferred charges	1,290	8,856	-	-
Restricted assets:				
Cash	-	-	5,755	564
Noncash	-	107,448	-	-
Other assets	1,103	4,177	-	3,242
Capital assets:				
Land, infrastructure and construction in progress	3,283,470	739	6,712	116,659
Other capital assets, net	735,406	2,414	62,555	931,458
Total assets	7,735,725	2,141,999	160,167	1,713,014
Liabilities				
Accounts payable	525,581	21,604	8,392	14,887
Accrued payroll and related liabilities	44,709	743	-	19,337
Intergovernmental payables	64,717	742	-	7,378
Interest payable	30,278	14,887	-	4,194
Due to component unit	69,399	73	-	-
Contracts/retentions payable	17,599	-	-	-
Obligations under securities lending	693,077	45,349	17,866	-
Deferred revenues	332,803	5,112	-	22,491
Reserve for losses	67,132	-	-	-
Other liabilities	36,704	13	10,795	9,840

Long-term liabilities:

Portion due or payable within one year:

Obligations under capital leases	1,553	-	1,553	-	1,553
Compensated absences	49,850	868	50,718	-	21,445
Bonds payable	97,939	21,621	119,560	1,135	7,735
Certificates of participation payable	660	-	660	-	-
Arbitrage rebate liability	510	-	510	-	-
<i>Portion due or payable after one year:</i>					
Obligations under capital leases	5,599	-	5,599	-	8,869
Compensated absences	28,317	499	28,816	207	9,290
Bonds payable	2,163,784	1,217,507	3,381,291	112,764	247,410
Certificates of participation payable	13,105	-	13,105	-	-
Arbitrage rebate liability	65	47	112	-	-
Total liabilities	4,243,381	1,329,065	5,572,446	151,159	374,431

Net Assets

Invested in capital assets, net of related debt	3,222,052	3,059	3,225,111	123	842,722
Restricted for:					
Unemployment compensation	-	511,963	511,963	-	-
Security of outstanding obligations	-	142,702	142,702	-	-
Workers compensation	-	18,875	18,875	-	-
Capital projects	-	-	-	-	117,399
Debt service	5,494	-	5,494	-	2,667
Education and support services	34,928	-	34,928	-	-
Transportation	187,043	-	187,043	-	-
Recreation and resource development	34,736	128,218	162,954	-	-
Law, justice and public safety	2,799	-	2,799	-	-
Health and social services	34,007	-	34,007	-	-
Regulation of business	8,315	88	8,403	-	-
Municipal securities	13,814	-	13,814	-	-
Scholarships	-	-	-	-	87,486
Loans	-	-	-	-	4,163
Operations and maintenance	-	-	-	705	-
Funds held as permanent investments:					
Nonexpendable	110,967	-	110,967	-	129,461
Expendable	22	-	22	-	-
Unrestricted (deficit)	(161,833)	8,029	(153,804)	8,180	154,685
Total net assets	\$ 3,492,344	\$ 812,934	\$ 4,305,278	\$ 9,008	\$ 1,338,583

The notes to the financial statements are an integral part of this statement.

Statement of Activities

State
of
Nevada

For the Fiscal Year Ended June 30, 2003 (Expressed in Thousands)

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets				
				Primary Government			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	University System
Functions/Programs								
Primary Government								
Governmental activities:								
General government	\$ 195,351	\$ 153,108	\$ 16,465	\$ -	\$ (25,778)	\$ -	\$ (25,778)	\$ -
Health and social services	1,749,723	134,847	1,024,148	-	(590,728)	-	(590,728)	-
Education and support services	1,459,802	2,967	221,321	-	(1,235,514)	-	(1,235,514)	-
Law, justice and public safety	432,066	195,259	19,878	4,076	(212,853)	-	(212,853)	-
Regulation of business	79,396	41,406	5,310	-	(32,680)	-	(32,680)	-
Transportation	384,247	9,578	185,635	3,418	(185,616)	-	(185,616)	-
Recreation and resource development	103,306	27,529	27,092	1,041	(47,644)	-	(47,644)	-
Intergovernmental - grants and revenue sharing	124,489	-	-	-	(124,489)	-	(124,489)	-
Interest on long-term debt	112,096	-	-	-	(112,096)	-	(112,096)	-
Unallocated depreciation	1,152	-	-	-	(1,152)	-	(1,152)	-
Total governmental activities	4,641,628	564,694	1,499,849	8,535	(2,568,550)	-	(2,568,550)	-
Business-type activities:								
Unemployment insurance	377,395	-	90,501	-	-	(286,894)	(286,894)	-
Housing	71,927	54,854	22,047	-	-	4,974	4,974	-
Water loans	4,715	3,532	15,779	-	-	14,596	14,596	-
Workers compensation and safety	19,274	20,703	3,055	-	-	4,484	4,484	-
Other	13,134	18,127	389	-	-	5,382	5,382	-
Total business-type activities	486,445	97,216	131,771	-	-	(257,458)	(257,458)	-
Total primary government	\$ 5,128,073	\$ 661,910	\$ 1,631,620	\$ 8,535	(2,568,550)	(257,458)	(2,826,008)	-
Component Units								
Colorado River Commission	\$ 147,973	\$ 143,989	\$ -	\$ -	-	-	-	(3,984)
University System	958,079	275,625	257,545	18,835	-	-	-	(406,074)
Total component units	\$ 1,106,052	\$ 419,614	\$ 257,545	\$ 18,835	-	-	-	(3,984)
								(406,074)

General revenues:					
Taxes:					
Sales and use	697,459	-	-	697,459	-
Gaming	698,501	-	-	698,501	-
Fuel	3,212	-	-	3,212	-
Other	421,679	-	-	421,679	-
Restricted for unemployment compensation:					
Other taxes	-	250,325	-	250,325	-
Restricted for educational purposes:					
Sales and use taxes	63,433	-	-	63,433	-
Gaming taxes	37,151	-	-	37,151	-
Restricted for debt service purposes:					
Property taxes	89,308	-	-	89,308	-
Fuel taxes	13,016	-	-	13,016	-
Other	76,330	-	-	76,330	-
Restricted for recreation and resource development:					
Other taxes	14,696	-	-	14,696	-
Restricted for health and social services purposes:					
Property taxes	6,500	-	-	6,500	-
Other taxes	8,326	-	-	8,326	-
Restricted for transportation purposes:					
Fuel taxes	237,723	-	-	237,723	-
Restricted for regulation purposes:					
Other taxes	460	-	-	460	-
Contributions to permanent funds	15,952	-	-	15,952	585
Tobacco settlement income	44,753	-	-	44,753	-
Unrestricted investment earnings	26,712	-	-	26,712	1,643
Fiscal relief revenues	33,976	-	-	33,976	-
Gain on sale of assets	361	-	-	361	-
Other general revenues	25,847	-	-	25,847	24
Payments from State of Nevada	-	-	-	-	375,726
Special item - gain on sale of right-of-way	8,485	-	-	8,485	-
Transfers	16,791	(16,791)	-	-	-
Total general revenues, special items, and transfers	2,540,671	233,534	2,774,205	1,667	395,787
Change in net assets	(27,879)	(23,924)	(51,803)	(2,317)	(10,287)
Net assets - beginning	3,520,223	836,858	4,357,081	11,325	1,348,870
Net assets - ending	\$ 3,492,344	\$ 812,934	\$ 4,305,278	\$ 9,008	\$ 1,338,583

The notes to the financial statements are an integral part of this statement.

Balance Sheet Governmental Funds

June 30, 2003

	General Fund	State Highway	Municipal Bond Bank
Assets			
<i>Cash and pooled investments:</i>			
Cash with treasurer	\$ 186,252,286	\$ 219,987,556	\$ 2,444,904
Cash in custody of other officials	3,672,256	130,127	-
Investments	17,081,738	-	1,071,280,000
Collateral on loaned securities	213,483,540	190,943,688	12,722,222
Food stamp coupons	40,702	-	-
<i>Receivables:</i>			
Accounts receivable	22,048,986	3,339,822	-
Taxes receivable	439,412,369	44,575,569	-
Intergovernmental receivables	161,060,160	20,067,470	-
Accrued interest and dividends	11,802,186	-	10,335,668
Notes/loans receivable	723,883	-	-
Other receivables	29,492	-	-
Due from other funds	29,377,123	3,776,029	15,039
Due from fiduciary funds	242,832	-	-
Due from component unit	970,131	-	-
Inventory	-	6,100,746	-
Advances to other funds	17,084,023	13,282	-
Advances to fiduciary funds	3,698,590	-	-
Prepaid items	40,903,044	5,830,648	-
Total assets	\$ 1,147,883,341	\$ 494,764,937	\$ 1,096,797,833
Liabilities and Fund Balances			
<i>Accounts payable and accruals:</i>			
Accounts payable	\$ 173,310,432	\$ 31,045,537	\$ -
Accrued payroll and related liabilities	30,740,668	8,717,571	-
Intergovernmental payables	55,596,459	6,655,246	-
Interest payable	-	-	-
Contracts/retentions payable	20,049	10,700,525	-
Obligations under securities lending	213,483,540	190,943,688	12,722,222
Due to other funds	30,851,013	34,978,212	2,188,771
Due to fiduciary funds	304,685,966	2,116,627	-
Due to component unit	9,251,809	359,760	-
Advances from general fund	-	-	-
Deferred revenues	185,296,775	7,905,289	10,335,668
Bonds payable	-	-	-
<i>Other liabilities:</i>			
Other	35,125,312	843,856	-
Total liabilities	1,038,362,023	294,266,311	25,246,661
Fund balances:			
<i>Reserved:</i>			
Encumbrances and contracts	6,130,281	118,900,672	-
Inventories	-	6,100,746	-
Advances	20,782,613	13,282	-
Balances forward	160,889,578	-	-
Investment in municipal securities	-	-	1,071,282,849
Permanent fund principal	-	-	-
Fiscal emergency	-	-	-
Debt service	-	-	-
Other	41,626,927	5,830,648	-
Unreserved	(119,908,081)	69,653,278	268,323
<i>Unreserved, reported in nonmajor:</i>			
Special revenue funds	-	-	-
Capital project funds	-	-	-
Permanent funds	-	-	-
Total fund balances	109,521,318	200,498,626	1,071,551,172
Total liabilities and fund balances	\$ 1,147,883,341	\$ 494,764,937	\$ 1,096,797,833

The notes to the financial statements are an integral part of this statement.

Consolidated Bond Interest and Redemption	Stabilize the Operations of State Government	Other Governmental Funds	Total Governmental Funds
\$ 54,959,427	\$ 1,340,970	\$ 337,608,784	\$ 802,593,927
-	-	1,347,084	5,149,467
-	-	110,254,668	1,198,616,406
127,513,302	-	145,243,862	689,906,614
-	-	-	40,702
-	-	4,493,112	29,881,920
-	-	2,938,743	486,926,681
188,662,555	-	8,368,656	378,158,841
-	-	1,055,486	23,193,340
-	-	77,895	801,778
-	-	3,927	33,419
5,542,040	-	54,241,133	92,951,364
-	-	186,469	429,301
8,190,000	-	-	9,160,131
-	-	1,284,825	7,385,571
3,388,936	-	-	20,486,241
-	-	-	3,698,590
-	-	40,717	46,774,409
<u>\$ 388,256,260</u>	<u>\$ 1,340,970</u>	<u>\$ 667,145,361</u>	<u>\$ 3,796,188,702</u>
\$ 23,377	\$ -	\$ 11,988,730	\$ 216,368,076
-	-	3,736,535	43,194,774
-	-	2,461,794	64,713,499
5,766,024	-	-	5,766,024
-	-	6,878,264	17,598,838
127,513,302	-	145,243,862	689,906,614
-	-	27,201,481	95,219,477
-	-	57,430	306,860,023
-	-	69,464,161	79,075,730
-	-	794,332	794,332
196,640,754	-	4,726,073	404,904,559
9,575,000	-	-	9,575,000
-	-	734,985	36,704,153
<u>339,518,457</u>	<u>-</u>	<u>273,287,647</u>	<u>1,970,681,099</u>
-	-	3,869,269	128,900,222
-	-	1,284,825	7,385,571
3,388,936	-	-	24,184,831
-	-	-	160,889,578
-	-	-	1,071,282,849
-	-	110,966,552	110,966,552
-	1,340,970	-	1,340,970
45,348,867	-	5,493,602	50,842,469
-	-	10,708,510	58,166,085
-	-	-	(49,986,480)
-	-	190,375,889	190,375,889
-	-	71,136,738	71,136,738
-	-	22,329	22,329
<u>48,737,803</u>	<u>1,340,970</u>	<u>393,857,714</u>	<u>1,825,507,603</u>
<u>\$ 388,256,260</u>	<u>\$ 1,340,970</u>	<u>\$ 667,145,361</u>	<u>\$ 3,796,188,702</u>

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

State
of
Nevada

June 30, 2003

Total fund balances - governmental funds

\$ 1,825,507,603

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	484,005,418	
Infrastructure assets	2,598,381,889	
Buildings	772,918,801	
Improvements other than buildings	76,790,276	
Furniture and equipment	321,258,508	
Construction in progress	197,989,489	
Accumulated depreciation	(461,983,715)	
Total capital assets		3,989,360,666

Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

72,119,273

A portion of the interest accrued on bonds payable (not reported in the funds) is due from local governments.

10,535,268

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

(36,399,589)

The deferred loss on early retirement of debt is reported as a deferred charge on the statement of net assets and is amortized over the original remaining life of the old debt, or the life of the new debt, whichever is less.

1,289,497

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(2,251,001,526)	
Accrued interest on bonds	(24,512,433)	
Arbitrage rebate liability	(575,245)	
Certificates of participation	(13,765,000)	
Capital leases	(4,718,227)	
Compensated absences	(75,495,978)	
Total long-term liabilities		(2,370,068,409)

Net assets of governmental activities

\$ 3,492,344,309

The notes to the financial statements are an integral part of this statement.



Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Fiscal Year Ended June 30, 2003

	General Fund	State Highway	Municipal Bond Bank	Consolidated Bond Interest and Redemption
Revenues				
Gaming taxes, fees, licenses	\$ 720,114,456	\$ -	\$ -	\$ -
Sales taxes	756,961,534	-	-	-
Intergovernmental	1,390,467,301	191,270,430	-	19,203,263
Other taxes	388,777,341	252,849,515	-	89,308,172
Licenses, fees and permits	118,012,339	137,942,219	-	-
Sales and charges for services	35,694,416	10,926,187	-	-
Interest and investment income	18,557,834	11,376,352	58,120,010	7,107,833
Tobacco settlement income	-	-	-	-
Other:				
Fines	-	-	-	-
Land sales	-	-	-	-
Other	37,115,342	7,585,768	-	-
Total revenues	3,465,700,563	611,950,471	58,120,010	115,619,268
Expenditures				
<i>Current:</i>				
General government	50,975,898	2,557,592	17,940	1,545,423
Health and social services	1,648,928,048	-	-	-
Education and support services	1,401,310,749	-	-	8,606,301
Law, justice and public safety	288,368,309	123,969,769	-	-
Regulation of business	60,819,662	-	500	-
Transportation	-	499,449,503	-	-
Recreation, resource development	81,060,827	-	-	-
Intergovernmental	82,530,974	10,261,912	-	-
Capital outlay	-	-	-	-
<i>Debt service:</i>				
Principal	389,343	2,150,783	-	79,030,000
Interest, fiscal charges	86,077	214,283	-	115,125,664
Bond issuance costs	-	-	-	871,855
Arbitrage payments	20,800	-	-	-
Total expenditures	3,614,490,687	638,603,842	18,440	205,179,243
Excess (deficiency) of revenues over expenditures	(148,790,124)	(26,653,371)	58,101,570	(89,559,975)
Other Financing Sources (Uses)				
Capital leases	59,576	3,471,058	-	-
Sale of general obligation bonds	2,018,156	-	5,000,000	7,737,026
Premium on general obligation bonds	-	-	-	1,631,390
Sale of capital assets	34,870	17,485,185	-	-
Sale of general obligation refunding bonds	-	-	-	13,134,758
Payment to refunded bond agent	-	-	-	(13,134,758)
Transfers in	246,333,911	4,577,060	-	91,224,773
Transfers out	(40,882,814)	(20,285,836)	(81,979,941)	(137,494)
Total other financing sources (uses)	207,563,699	5,247,467	(76,979,941)	100,455,695
Net change in fund balances	58,773,575	(21,405,904)	(18,878,371)	10,895,720
Fund balances, July 1	50,747,743	221,904,530	1,090,429,543	37,842,083
Fund balances, June 30	\$ 109,521,318	\$ 200,498,626	\$ 1,071,551,172	\$ 48,737,803

The notes to the financial statements are an integral part of this statement.

Stabilize the Operations of State Government	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 15,537,831	\$ 735,652,287
-	-	756,961,534
-	61,879,270	1,662,820,264
-	62,578,283	793,513,311
-	24,896,457	280,851,015
-	11,964,569	58,585,172
-	14,848,943	110,010,972
-	44,753,037	44,753,037
-	4,202,347	4,202,347
-	11,654,081	11,654,081
-	9,530,232	54,231,342
-	261,845,050	4,513,235,362
-	44,308,970	99,405,823
-	88,749,386	1,737,677,434
-	57,022,882	1,466,939,932
-	16,211,273	428,549,351
-	17,426,576	78,246,738
-	-	499,449,503
-	18,024,402	99,085,229
-	23,195,692	115,988,578
-	22,294,058	22,294,058
-	8,574,849	90,144,975
-	4,433,785	119,859,809
-	-	871,855
-	179,000	199,800
-	300,420,873	4,758,713,085
-	(38,575,823)	(245,477,723)
-	7,255	3,537,889
-	54,134,474	68,889,656
-	-	1,631,390
-	360,771	17,880,826
-	-	13,134,758
-	-	(13,134,758)
-	55,932,261	398,068,005
(135,000,000)	(100,818,466)	(379,104,551)
(135,000,000)	9,616,295	110,903,215
(135,000,000)	(28,959,528)	(134,574,508)
136,340,970	422,817,242	1,960,082,111
\$ 1,340,970	\$ 393,857,714	\$ 1,825,507,603

Reconciliation of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

State
of
Nevada

June 30, 2003

Net change in fund balances - total governmental funds

\$ (134,574,508)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:

Capital outlay	146,292,950	
Depreciation expense	(52,026,267)	
Excess of capital outlay over depreciation expense		94,266,683

Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:

Bonds issued	(68,889,656)	
Refunding bonds issued	(13,134,758)	
Total bond proceeds		(82,024,414)

Some capital additions were financed through capital leases. In the governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.

(3,537,889)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	86,649,954	
Certificates of participation retirement	630,000	
Capital lease payments	2,719,774	
Payments to the bond refunding agent	13,134,758	
Total long-term debt repayment		103,134,486

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (loss) of the internal service funds is reported with governmental activities.

(12,142,869)

Because some revenues will not be collected for several months after the State's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year.

6,778,198

In the statement of activities, the gain or loss on the sale of assets is reported, whereas in the governmental funds, only the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.

(9,058,812)

In the statement of activities, the change in the net pension obligation for the Judicial Retirement System is reported as a reduction to expense.

13,389,455

Amortization of deferred loss on early retirement of debt is reported as an expense for the statement of activities.

(292,804)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Net decrease in accrued interest	173,741	
Increase in compensated absences	(3,977,310)	
Increase in arbitrage liability	(12,751)	
Total additional expenditures		(3,816,320)

Change in net assets of governmental activities

\$ (27,878,794)

The notes to the financial statements are an integral part of this statement.



Statement of Net Assets Proprietary Funds

June 30, 2003

	Enterprise Funds				Internal Service Funds
	Housing Division	Unemployment Compensation	Other Enterprise Funds	Total	
Assets					
Current assets:					
<i>Cash and pooled investments:</i>					
Cash with treasurer	\$ 111,375	\$ -	\$ 62,112,370	\$ 62,223,745	\$ 23,440,808
Cash in custody of other officials	69,453	440,587,927	210,057	440,867,437	2,131,006
Investments	82,985,643	-	-	82,985,643	-
Collateral on loaned securities	-	-	45,348,827	45,348,827	3,170,793
<i>Receivables:</i>					
Accounts receivable	-	-	830,781	830,781	107,161
Assessments receivable	-	83,483,698	-	83,483,698	-
Intergovernmental receivables	-	-	2,159,923	2,159,923	157,371
Accrued interest and dividends	8,215,947	-	1,742,794	9,958,741	-
Due from other funds	3,301	-	1,844,722	1,848,023	7,999,125
Due from fiduciary funds	-	-	9,260	9,260	2,031
Due from component unit	-	-	16,177	16,177	525,048
Inventory	-	-	1,490,496	1,490,496	573,807
Prepaid expenses	-	-	30,485	30,485	1,025
<i>Restricted Assets:</i>					
Noncash	63,305,709	-	-	63,305,709	-
Total current assets	154,691,428	524,071,625	115,795,892	794,558,945	38,108,175
Noncurrent assets:					
Investments	318,343,581	-	101,994,985	420,338,566	-
<i>Receivables:</i>					
Mortgages receivable	822,860,499	-	-	822,860,499	-
Accrued interest and dividends	-	-	292,517	292,517	-
Notes/loans receivable	-	-	46,071,025	46,071,025	159,400
Deferred charges	7,879,906	-	976,087	8,855,993	-
<i>Restricted assets:</i>					
Noncash	44,142,004	-	-	44,142,004	-
Other assets	4,177,152	-	-	4,177,152	1,102,970
<i>Capital assets:</i>					
Land	-	-	435,251	435,251	130,954
Buildings	-	-	2,978,264	2,978,264	7,546,213
Improvements other than buildings	-	-	630,647	630,647	727,317
Furniture and equipment	342,544	-	4,493,809	4,836,353	55,273,112
Construction in progress	-	-	303,459	303,459	2,962,582
Less accumulated depreciation	(275,799)	-	(5,755,031)	(6,030,830)	(48,463,013)
Software costs, net	-	-	-	-	11,338,484
Total noncurrent assets	1,197,469,887	-	152,421,013	1,349,890,900	30,778,019
Total assets	1,352,161,315	524,071,625	268,216,905	2,144,449,845	68,886,194

Enterprise Funds					
	Housing Division	Unemployment Compensation	Other Enterprise Funds	Total	Internal Service Funds
Liabilities					
Current liabilities:					
<i>Accounts payable and accruals:</i>					
Accounts payable	8,225,258	12,108,740	1,184,901	21,518,899	4,255,044
Interest payable	13,734,609	-	1,152,516	14,887,125	-
Accrued payroll and related liabilities	-	-	743,473	743,473	1,513,866
Intergovernmental payables	-	-	741,840	741,840	3,019
Obligations under securities lending	-	-	45,348,827	45,348,827	3,170,793
Due to other funds	49,830	-	2,126,380	2,176,210	5,402,825
Due to fiduciary funds	-	-	85,110	85,110	7,551
Due to component unit	-	-	89,088	89,088	2,874
Deferred revenues	-	-	5,111,921	5,111,921	17,388
Other liabilities	-	-	13,230	13,230	-
<i>Short-term portion of long-term liabilities:</i>					
Obligations under capital leases	-	-	-	-	382,858
Compensated absences	98,649	-	769,782	868,431	1,678,450
Bonds payable	18,276,000	-	3,345,000	21,621,000	-
Total current liabilities	40,384,346	12,108,740	60,712,068	113,205,154	16,434,668
Noncurrent liabilities:					
Advances from funds	-	-	94,272	94,272	19,597,636
Reserve for losses	-	-	-	-	67,131,769
Obligations under capital leases	-	-	-	-	2,050,775
Compensated absences	89,139	-	409,429	498,568	992,362
Bonds payable	1,165,887,000	-	51,619,551	1,217,506,551	1,146,629
Arbitrage rebate liability	-	-	47,252	47,252	-
Total noncurrent liabilities	1,165,976,139	-	52,170,504	1,218,146,643	90,919,171
Total liabilities	1,206,360,485	12,108,740	112,882,572	1,331,351,797	107,353,839
Net Assets					
Invested in capital assets, net of related debt	66,745	-	2,992,127	3,058,872	8,532,211
Restricted for unemployment compensation	-	511,962,885	-	511,962,885	-
Restricted for security of outstanding obligations	142,701,915	-	-	142,701,915	-
Restricted for workers compensation	-	-	18,874,679	18,874,679	-
Restricted for revolving loans	-	-	128,218,508	128,218,508	-
Restricted for regulation of business	-	-	87,532	87,532	-
Unrestricted (deficit)	3,032,170	-	5,161,487	8,193,657	(46,999,856)
Total net assets	\$ 145,800,830	\$ 511,962,885	\$ 155,334,333	813,098,048	\$ (38,467,645)
Some amounts reported for <i>business-type activities</i> in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.				(164,372)	
Net assets of business-type activities				<u>\$ 812,933,676</u>	

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

State
of
Nevada

For the Fiscal Year Ended June 30, 2003

Enterprise Funds					
	Housing Division	Unemployment Compensation	Other Enterprise Funds	Total	Internal Service Funds
Operating Revenues					
Sales	\$ -	\$ -	\$ 5,434,481	\$ 5,434,481	\$ 5,188,281
Assessments	-	250,324,714	18,770,954	269,095,668	-
Net premium income	-	-	-	-	195,627,101
Charges for services	-	-	9,238,585	9,238,585	44,686,436
Rental income	-	-	147,889	147,889	15,992,882
Interest income on loans/notes	51,400,578	-	4,641,271	56,041,849	-
Interest and investment income	20,031,868	28,410,018	-	48,441,886	-
From federal agencies	2,015,345	62,091,180	13,114,169	77,220,694	-
Licenses, fees and permits	-	-	2,772,063	2,772,063	-
Contributions	-	-	258,767	258,767	-
Other	3,453,037	-	2,352,860	5,805,897	1,770,645
Total operating revenues	76,900,828	340,825,912	56,731,039	474,457,779	263,265,345
Operating Expenses					
Salaries and benefits	1,839,953	-	15,286,231	17,126,184	30,686,895
Operating	3,274,582	-	11,818,681	15,093,263	33,221,390
Administrative expense	-	-	59,987	59,987	-
Claims expense	-	377,394,850	4,130,274	381,525,124	162,572,245
Interest on bonds payable	63,234,955	-	-	63,234,955	-
Materials or supplies used	-	-	2,375,963	2,375,963	1,885,001
Servicers' fees	1,481,133	-	-	1,481,133	-
Depreciation	6,304	-	340,709	347,013	5,280,120
Amortization	-	-	-	-	1,651,991
Insurance premiums	-	-	-	-	39,135,968
Bond issuance costs	2,131,073	-	125,520	2,256,593	-
Total operating expenses	71,968,000	377,394,850	34,137,365	483,500,215	274,433,610
Operating income (loss)	4,932,828	(36,568,938)	22,593,674	(9,042,436)	(11,168,265)
Nonoperating Revenues (Expenses)					
Interest and investment income	-	-	2,812,794	2,812,794	180,865
Interest expense	-	-	(3,417,571)	(3,417,571)	(191,664)
Federal grants	-	-	2,041,300	2,041,300	-
Gain (loss) on disposal of assets	-	-	-	-	(125,769)
Arbitrage rebate	-	-	(3,871)	(3,871)	-
Total nonoperating revenues (expenses)	-	-	1,432,652	1,432,652	(136,568)
Income (loss) before transfers	4,932,828	(36,568,938)	24,026,326	(7,609,784)	(11,304,833)
Transfers					
Transfers in	-	-	779,198	779,198	245,428
Transfer out	(43,469)	-	(17,526,953)	(17,570,422)	(2,417,658)
Change in net assets	4,889,359	(36,568,938)	7,278,571	(24,401,008)	(13,477,063)
Net assets, July 1	140,911,471	548,531,823	148,055,762		(24,990,582)
Net assets, June 30	\$ 145,800,830	\$ 511,962,885	\$ 155,334,333		\$ (38,467,645)

Some amounts reported for *business-type activities* in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.

Change in net assets of business-type activities

476,552
\$ (23,924,456)

The notes to the financial statements are an integral part of this statement.



Statement of Cash Flows Proprietary Funds

For the Fiscal Year Ended June 30, 2003

	Enterprise Funds				Internal Service Funds
	Housing Division	Unemployment Compensation	Other Enterprise Funds	Totals	
Cash flows from operating activities					
Receipts from customers and users	\$ 3,032,190	\$ 306,055,483	\$ 36,284,343	\$ 345,372,016	\$ 17,870,895
Receipts for interfund services provided	270	1,191,759	3,191,407	4,383,436	198,888,776
Receipts from component units	-	-	22,537	22,537	49,578,517
Receipts of principal on loans and notes	288,169,863	-	6,341,315	294,511,178	-
Receipts of interest on loans and notes	-	-	4,855,688	4,855,688	-
Receipts of grants	-	-	12,686,877	12,686,877	-
Payments to suppliers, other governments and beneficiaries	(116,953)	(379,598,271)	(15,580,311)	(395,295,535)	(231,389,090)
Payments to employees	(1,839,953)	-	(14,666,177)	(16,506,130)	(30,197,420)
Payments for interfund services used	(324,006)	-	(2,590,307)	(2,914,313)	(6,329,277)
Payments to component units	(8,500)	-	(509,871)	(518,371)	(154,565)
Purchase of loans and notes	(118,700,055)	-	(20,165,062)	(138,865,117)	-
Net cash provided by (used for) operating activities	170,212,856	(72,351,029)	9,870,439	107,732,266	(1,732,164)
Cash flows from noncapital financing activities					
Grant receipts	-	-	2,296,359	2,296,359	-
Proceeds from sale of bonds	128,830,000	-	-	128,830,000	-
Transfers from other funds	2,015,345	-	918,263	2,933,608	102,316
Principal paid on noncapital debt	(257,702,000)	-	(3,240,000)	(260,942,000)	-
Interest paid on noncapital debt	(65,385,988)	-	(2,846,056)	(68,232,044)	-
Transfers to other funds	(43,469)	-	(17,330,251)	(17,373,720)	(868,195)
Other noncapital financing activities	(2,136,342)	-	-	(2,136,342)	559
Net cash provided by (used for) noncapital financing activities	(194,422,454)	-	(20,201,685)	(214,624,139)	(765,320)
Cash flows from capital and related financing activities					
Proceeds from sale of capital assets	-	-	-	-	133,512
Purchase of capital assets	(59,732)	-	(676,185)	(735,917)	(948,358)
Principal paid on capital debt	-	-	(10,512)	(10,512)	(3,033,704)
Interest paid on capital debt	-	-	-	-	(124,483)
Net cash provided by (used for) capital and related financing activities	(59,732)	-	(686,697)	(746,429)	(3,973,033)
Cash flows from investing activities					
Proceeds from sale of investments	490,907,764	-	-	490,907,764	-
Purchase of investments	(486,829,755)	-	-	(486,829,755)	-
Interest and dividends received	20,079,972	28,410,018	2,089,134	50,579,124	140,096
Net cash provided by (used for) investing activities	24,157,981	28,410,018	2,089,134	54,657,133	140,096
Net increase (decrease) in cash	(111,349)	(43,941,011)	(8,928,809)	(52,981,169)	(6,330,421)
Cash and cash equivalents, July 1	292,177	484,528,938	71,251,236	556,072,351	31,902,235
Cash and cash equivalents, June 30	<u>\$ 180,828</u>	<u>\$ 440,587,927</u>	<u>\$ 62,322,427</u>	<u>\$ 503,091,182</u>	<u>\$ 25,571,814</u>

	Enterprise Funds				Internal Service Funds
	Housing Division	Unemployment Compensation	Other Enterprise Funds	Totals	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ 4,932,828	\$ (36,568,938)	\$ 22,593,674	\$ (9,042,436)	\$ (11,168,265)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation	6,304	-	340,709	347,013	5,266,037
Amortization	2,131,073	-	125,520	2,256,593	1,666,074
Income on investments	(20,031,868)	(28,410,018)	-	(48,441,886)	-
Interest on bonds payable	63,234,955	-	-	63,234,955	-
Decrease (increase) in loans and notes receivable	116,830,118	-	(14,618,633)	102,211,485	-
Decrease (increase) in accrued interest and receivables	793,658	(5,168,652)	160,266	(4,214,728)	3,102,649
Decrease (increase) in inventory, deferred charges, other assets	-	-	235,228	235,228	(220,173)
Increase (decrease) in accounts payable, accruals, other liabilities	2,315,788	(2,203,421)	1,011,227	1,123,594	(295,857)
Other adjustments	-	-	22,448	22,448	(82,629)
Total adjustments	165,280,028	(35,782,091)	(12,723,235)	116,774,702	9,436,101
Net cash provided by (used for) operating activities	<u>\$ 170,212,856</u>	<u>\$ (72,351,029)</u>	<u>\$ 9,870,439</u>	<u>\$ 107,732,266</u>	<u>\$ (1,732,164)</u>
Noncash investing, capital and financing activities					
Property leased, accrued or acquired	\$ -	\$ -	\$ -	\$ -	\$ 12,794,029
Construction completed or in progress	-	-	-	-	492,979
Interest/dividends on investments accrued	-	-	1,835,850	1,835,850	43,086
Change in fair value of investments	(125,986)	-	302,895	176,909	(53,476)

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets Fiduciary Funds

State
of
Nevada

June 30, 2003

	Pension Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
Assets				
<i>Cash and pooled investments:</i>				
Cash with treasurer	\$ -	\$ 283	\$ 3,154,715	\$ 76,614,729
Cash in custody of other officials	631,423,777	-	-	74,045,393
<i>Investments:</i>				
Investments	-	558,985,583	48,247,264	93,293,233
Fixed income securities	5,055,584,864	-	-	-
Marketable equity securities	4,899,886,330	-	-	-
International securities	2,592,081,571	-	-	-
Mutual funds	299,349,579	-	-	-
Mortgage loans	3,410,108	-	-	-
Real estate	1,047,855,920	-	-	-
Alternative investments	129,797,760	-	-	-
Collateral on loaned securities	1,446,475,846	91,654,128	248,583	4,261,311
<i>Receivables:</i>				
Accounts receivable	-	-	4,934	-
Accrued interest and dividends	73,073,691	2,535,943	176,402	-
Taxes receivable	-	-	-	8,371,491
Trades pending settlement	467,971,082	-	-	-
Intergovernmental receivables	49,386,524	-	39,496	7,365,268
Other receivables	-	-	-	33,315,784
Due from other funds	1,063,696	-	263,559	305,625,429
Due from fiduciary funds	9,560,949	-	-	10,373,328
Other assets	781,083	-	-	-
Furniture and equipment	22,619,938	-	-	-
Accumulated depreciation	(14,485,667)	-	-	-
Total assets	16,715,837,051	653,175,937	52,134,953	613,265,966
Liabilities				
<i>Accounts payable and accruals:</i>				
Accounts payable	7,859,188	-	78,834	-
Accrued payroll and related liabilities	-	-	13,934	13,500
Intergovernmental payables	-	515,401	3,427	381,964,042
Trades pending settlement	1,171,314,352	-	-	-
Obligations under securities lending	1,446,475,846	91,654,128	248,583	4,261,311
Due to other funds	681	2,070	437,841	-
Due to fiduciary funds	-	-	9,518	19,924,759
Due to component units	-	-	5,053	-
Advance from general fund	-	-	3,698,590	-
<i>Other liabilities:</i>				
Deposits	-	-	-	196,985,848
Other liabilities	210,438	-	-	10,116,506
Total liabilities	2,625,860,505	92,171,599	4,495,780	613,265,966
Net Assets				
<i>Held in trust for:</i>				
Employees' pension benefits	14,089,976,546	-	-	-
Individuals, organizations and other governments	-	561,004,338	47,639,173	-
Total net assets	\$ 14,089,976,546	\$ 561,004,338	\$ 47,639,173	\$ -

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets Fiduciary Funds

State
of
Nevada

For the Fiscal Year Ended June 30, 2003

	Pension Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
Additions			
<i>Contributions:</i>			
Employer	\$ 731,658,302	\$ -	\$ -
Plan members	55,477,430	-	-
Participants	-	-	23,005,091
Repayment and purchase of service	29,625,164	-	-
Total contributions	816,760,896	-	23,005,091
<i>Investment income:</i>			
Net increase in fair value of investments	222,747,689	428,959	1,210,458
Interest, dividends	383,851,961	9,062,450	1,750,567
Securities lending income	25,293,441	1,132,085	7,584
Other	83,957,150	-	-
	715,850,241	10,623,494	2,968,609
Less Investment expense:			
Cost of securities lending	(20,250,900)	(1,070,490)	(6,912)
Other	(22,030,337)	(96,477)	-
Net investment income	673,569,004	9,456,527	2,961,697
<i>Other:</i>			
Investment from local governments	-	989,890,157	-
Reinvestment from interest income	-	7,127,970	-
Sales and charges for services	-	-	20,997
Other	2,121,635	-	73,880
Total other	2,121,635	997,018,127	94,877
Total additions	1,492,451,535	1,006,474,654	26,061,665
Deductions			
Principal redeemed	-	963,463,388	-
Benefit payments	593,026,642	-	12,697,114
Refunds	11,111,933	-	648,882
Contribution distributions	6,691,206	-	-
Dividends to investors	-	7,739,730	-
Administrative expense	9,660,230	39,659	892,161
Total deductions	620,490,011	971,242,777	14,238,157
Change in net assets	871,961,524	35,231,877	11,823,508
Net assets, July 1	13,218,015,022	525,772,461	35,815,665
Net assets, June 30	\$ 14,089,976,546	\$ 561,004,338	\$ 47,639,173

The notes to the financial statements are an integral part of this statement.



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Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements of the State of Nevada (the State) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). As required by GAAP, the State's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, departments, agencies, and those authorities that are considered an integral part of the primary government. Component units are legally separate governmental organizations for which the State's elected officials are financially accountable. The State's component units have a June 30 year-end.

Financial accountability is defined in GASB statement No. 14, *The Financial Reporting Entity*. The State is financially accountable for those entities in which the State appoints a voting majority of an organization's governing authority, and either is able to impose its will upon the entity or there exists a financial benefits or burden relationship with the State. For those entities in which the State does not appoint a voting majority of the governing authority, GASB Statement No. 14 requires inclusion in the reporting entity if they are fiscally dependent on the State or if it would be misleading to exclude the authority.

Blended Component Units: The following blended component units are entities that are legally separate from the State. However, since the State Legislature retains certain significant governing powers over these entities, they are reported as if they are part of the primary government under the provisions of GASB Statement No. 14.

The *Public Employees' Retirement System* (PERS), the *Legislators' Retirement System* (LRS) and the *Judicial Retirement System* (JRS) are administered by a seven-member board appointed by the Governor. PERS is the administrator of a cost-sharing, multiple-employer, defined benefit public employees' retirement system established by the Nevada Legislature in 1947 to provide a reasonable base income to qualified employees who have been employed by a public employer and whose earning capacities have been removed or substantially impaired by age or disability. LRS is the administrator of a single employer public employees' defined benefit retirement system

established in 1967 by the Nevada Legislature to provide a reasonable base income to Legislators at retirement. JRS is the administrator of a single employer public employees' defined benefit retirement system established by the Nevada Legislature in 2001 to provide a reasonable base income to justices of the Supreme Court and district judges at retirement.

Nevada Real Property Corporation is a legally separate entity whose board of directors are exclusively state employees or officials. It was incorporated to finance the costs of a juvenile treatment facility through issuance of certificates of participation and to lease the juvenile treatment facility to the State. The State reports these financial transactions as part of the primary government using the blended method.

Discretely Presented Component Units: Per the provisions of GASB Statement No. 14, a component unit should be included in the reporting entity financial statements using the discrete presentation method if the component unit's governing body is not substantively the same as the governing body of the primary government, and the component unit does not provide services entirely or almost entirely to the primary government. The following discretely presented component units are reported in separate columns in the basic financial statements to emphasize they are legally separate from the State.

The *University and Community College System of Nevada* (University System) is governed by a Board of Regents elected by the voters. However, the University System is fiscally dependent upon the State because of appropriations from the State Legislature, the Legislative approval of the budget for those appropriations, the levying of taxes, if necessary, and the issuance of debt to support the University System. Because the University System has a separate governing body and does not provide services entirely or almost entirely to the primary government, it is presented discretely in the financial statements.

The *Colorado River Commission* (CRC) is a legally separate entity responsible for managing Nevada's interests in the water and power resources available from the Colorado River. It is governed by seven commissioners, a majority of whom are appointed

(Note 1 Continued)

by the State: four are appointed by the Governor and three appointed by the board of directors of the Southern Nevada Water Authority. Bonds issued by the CRC are backed by the full faith and credit of the State of Nevada, which creates the potential for a financial burden to the State. CRC provides services to citizens through the distribution and sale of electric power. As CRC has a separate governing body and does not provide services entirely or almost entirely to the primary government, it is presented discretely in the financial statements.

Complete financial statements for each of the individual component units, with the exception of the *Nevada Real Property Corporation*, which has no other financial activity than that described above, may be obtained at that entity's administrative offices:

Public Employees' Retirement System
Carson City, NV

Legislators' Retirement System
Carson City, NV

Judicial Retirement System
Carson City, NV

University and Community College System of Nevada
Reno, NV

Colorado River Commission
Las Vegas, NV

Related Organizations: The Governor is responsible for appointing the members of many occupational licensing boards. The State's accountability for these boards does not extend beyond making the appointments and thus these boards are excluded from this report. The State does not exercise financial or administrative control over the excluded occupational licensing boards.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees

charged to external parties for goods or services.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Certain indirect costs have been included as part of the program expenses reported for the various functions and activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues. In general, internal activity has been eliminated from the Statement of Activities. Overhead costs have been removed to minimize the double counting of internal activities, but interfund services provided and used have been retained, as their elimination would distort the measurement of the cost of individual functional activities. Internal activities of a reimbursement type nature reduce the expenses of the reimbursed programs.

(Note 1 Continued)

Fund Financial Statements: Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement Focus and Basis of Accounting: The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

GASB Statement No. 20 requires business-type activities and enterprise funds to apply all applicable GASB pronouncements and, unless they conflict with or contradict GASB pronouncements, all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989. As permitted by the Statement, the State has elected not to apply FASB pronouncements issued after that date.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, that is, when they become both measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon thereafter. The State considers revenues as available if they are collected within 60 days after year-end. Those revenues

susceptible to accrual are gaming revenues, sales taxes, other taxes as described in Note 12, interest revenue and charges for services. Fines and permit revenues are not susceptible to accrual because they are generally not measurable until received in cash.

Expenditures generally are recorded when the related fund liability is incurred. However, expenditures for principal and interest on long-term debt are recorded as fund liabilities only when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Inventories and prepaids are reported using the consumption method.

The State reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the State before it has a legal claim to them, as when grant monies are received before the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the governmental funds balance sheet and revenue is recognized.

Restricted revenues are those monies that are legally segregated for specific purposes. For example, a portion of a particular property tax levy may be legally pledged to support debt service. The general policy of the State is to expend unrestricted revenues first in a fund, followed by restricted revenues. However, there are exceptions to this policy in the Consolidated Bond Interest and Redemption fund and all the Capital Projects funds.

Financial Statement Presentation: The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *State Highway Fund* accounts for the maintenance, regulation, and construction of public highways and is funded through vehicle fuel taxes, federal funds, and other charges.

The *Municipal Bond Bank Fund* accounts for revenues and expenditures associated with buying local governments bonds with proceeds of State general obligation bonds.

(Note 1 Continued)

The *Consolidated Bond Interest and Redemption Fund* accumulates monies for the payment of leases and of principal and interest on general obligation bonds of the State.

The *Stabilize the Operations of State Government Fund*, commonly referred to as the "Rainy Day Fund", accounts for funds appropriated by the Legislature to be expended only if actual revenues for the biennium fall short by 5% or more from anticipated revenues or the Legislature and Governor declare that a fiscal emergency exists.

The State reports the following major enterprise funds:

The *Housing Division Fund* accounts for the State program to assist private lenders in providing low interest housing loans to low- and moderate-income households. This program is financed through the sale of bonds.

The *Unemployment Compensation Trust Fund* accounts for the payment of unemployment compensation benefits.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds - include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. Examples include school improvement, regulatory, tourism promotion, and other activities.

Debt Service Funds - account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds - account for the acquisition or construction of major State capital facilities generally financed by bond proceeds and commercial paper notes.

Permanent Funds - report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. An example is the permanent school fund, in which all earnings are distributed to school districts within the State.

Proprietary Fund Types:

Enterprise Funds - report the activities for which fees are charged to external users for goods or services, such as

workers' compensation, insurance and prison industry.

Internal Service Funds - provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include communications, purchasing, printing and motor pool. In the government-wide statements, internal service funds are included with governmental activities.

Fiduciary Fund Types:

Pension Trust Funds - report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit pension plans and other postemployment benefit plans.

Private Purpose Trust Funds - report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include higher education tuition trust and prisoners' personal property.

Agency Funds - report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples of funds in this category include motor vehicle, veterans custodial and child welfare.

D. Assets, Liabilities and Net Assets/Fund Balance

Cash and Pooled Investments - The State Treasurer manages a cash pool where all temporary surplus cash is invested. These investments are reported on the Statement of Net Assets and Balance Sheet as cash and pooled investments. Earnings from these pooled investments are credited to the General Fund and certain other funds that have specific statutory authority to receive a prorated share based on weekly cash balances. No entry is made to reduce the cash balance in each fund since the cash management pool has the same general characteristics as demand deposit accounts. Also included in this category is cash held by departments in petty cash funds and in bank accounts outside the Treasurer's cash management pool. The operations and investments of the cash pool are described in Note 3.

Cash and cash equivalents are defined as bank accounts, petty cash, money market demand accounts and certificates of deposits with original maturities of three months or less. Cash and cash equivalents are reported in the Statement of Cash Flows for proprietary fund types.

(Note 1 Continued)

Investments - Investments are stated at fair value. Fair value is defined as the price at which an asset passes from a willing seller to a willing buyer. It is assumed that both buyer and seller are rational and have a reasonable knowledge of relevant facts. Short-term investments are generally reported at cost, which approximates fair value. Securities, traded on a national or international exchange, are valued at the last reported sale price of the day. International securities prices incorporate end-of-day exchange rates. The fair value of real estate investments is based on estimated current value, and MAI (Member Appraisal Institute) independent appraisals. Investments that do not have an established market are reported at estimated fair value.

In pension trust funds, there is no concentration of 5% or more of the plans' net investments in securities of a single organization (other than those issued by the U.S. Government).

The Local Government Investment Pool and Nevada Enhanced Savings Term are investment trust funds as defined in Governmental Accounting Standards Board Statement No. 31. The investments in this fund are subject to the general limitation of section 355.170 of Nevada Revised Statutes. Security transactions are accounted for on the trade date (the date the order to buy or sell is executed). Interest income is determined on an accrual basis with discounts earned and premiums paid being amortized. Realized gains and losses, if any, on sales of securities are calculated using the amortized cost basis at the date of sale. The fair value of the position in the pool is the same as the value of the pool shares. Wells Fargo is the custodian and transfer agent for both investment trust funds.

Derivative securities are priced and accounted for at fair value. For exchange-traded securities, such as futures and options, closing prices from the securities exchanges are used. For fixed income derivatives, such as collateralized mortgage obligations (CMO), mortgage backed securities, and asset backed securities, commercial pricing services (where available) or bid-side prices from a broker/dealer are used. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offset in the forward markets.

Investments are categorized and discussed further in Note 3.

Receivables - Receivables represent amounts due to the State at June 30, which will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portions considered "available" (i.e., received by the State within approximately 60 days after year-end) are recorded as revenue; the remainder is recorded as deferred revenue. Receivables in proprietary fund types have arisen in the ordinary course of business, and are shown net of an allowance for uncollectible accounts.

Property taxes are levied July 1 on property values assessed by the prior January 1. Property tax billings are payable in quarterly installments on the third Monday in August and the first Monday in October, January and March, after which time the bill is delinquent.

Significant receivable balances not expected to be collected within one year are presented in Note 4.

Interfund Transactions - The State has two types of interfund transactions:

- 1) Services rendered and employee benefit contributions are accounted for as revenues, expenditures/expenses in the funds involved.
- 2) Operating appropriations and subsidies are accounted for as operating transfers in the funds involved.

Operating transfers and due from/due to other funds are presented in Note 5.

Inventories - Inventories are stated at cost on the first-in, first-out basis. Inventory in the State Highway Fund, a special revenue fund, consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. On the governmental funds Balance Sheet, the reserve for inventory of supplies is equal to the amount of inventory of supplies and recognizes that a portion of the fund balance is not available for expenditure on a budgetary basis.

Advances to Other Funds - Long-term interfund advances are recorded by the advancing fund as a receivable and as a reservation of fund balance to maintain the accountability and to disclose properly the amount available for appropriation (unreserved fund balance). Repayments are credited to the receivable and corresponding reductions are made in the reserve. A summary of interfund advances is presented in Note 5.

(Note 1 Continued)

Capital Assets and Depreciation - An inventory of State-owned land, buildings and equipment was developed in 1985. All capital assets are recorded in the Statement of Net Assets at historical cost or estimated historical cost, based on acquisition of comparable property or agency records, if actual historical cost is not available. Donated capital assets are stated at appraised fair market value at the time of donation or estimated fair market value at time of donation, based on acquisition of comparable property, if appraised fair market value is not available. The government defines capital assets as assets with a unit cost of \$5,000 or more for furniture and equipment, or \$100,000 or more for buildings and improvements, and an estimated useful life in excess of one year.

Infrastructure, such as roads and bridges, was capitalized for the first time in the year ended June 30, 2002. Interest incurred during construction is only capitalized in proprietary funds. Most capital assets are depreciated principally on a straight-line basis over estimated useful lives of 40 years for structures and 3 to 30 years for improvements, furniture and equipment. However, the State's significant infrastructure assets utilize the modified approach in which costs to maintain and preserve these assets are expensed and no depreciation expense is recorded. This approach is discussed further in the Required Supplementary Information portion of this report.

In the University System, capital assets are defined as assets with an initial unit cost of \$2,000 or more and an estimated useful life in excess of one year. Such assets are stated at cost at the date of acquisition or fair market value at date of donation in the case of gifts. Depreciation is computed on a straight-line basis over estimated useful lives of 40 years for buildings, 15 years for land improvements and 3 to 18 years for library books, machinery and equipment.

Additional disclosure related to capital assets is provided in Note 7.

Compensated Absences - Compensated absences are accounted for in accordance with GASB Statement No. 16, Accounting for Compensated Absences, which requires that a liability for compensated absences relating to services already rendered and that are not contingent on a specified event be accrued as employees earn the rights to the benefits. Compensated absences relating to future services or that are contingent on a specified event will be accounted for in the period those services are rendered or those events take place. Proprietary

fund types report accrued compensated absences as liabilities in the appropriate funds. Governmental funds report compensated absences expected to be liquidated with expendable available financial resources as an expenditure and a fund liability in the fund financial statements. On the Statement of Net Assets, the total accrued compensated absences for both Proprietary and Governmental fund types is reported. Fiduciary funds are not included in the Statement of Net Assets.

Deferred Revenues - Deferred revenues in the General Fund consist primarily of refundable gaming taxes and fees and nonexchange transactions for which the revenue is measurable but not available. Deferred revenue in the debt service funds consists primarily of amounts due from other governments to retire long-term debt.

Long-Term Obligations - In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term liabilities are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures. Long-Term Obligations are more fully described in Note 8.

Net Assets/Fund Balance - The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary and fiduciary fund statements, and "Fund Balance" on governmental fund statements.

Fund Balance Reservations and Designations - In the fund financial statements, governmental funds classify fund balances as either reserved or unreserved. Reserved fund balances are those amounts that are not available for appropriation or are legally restricted by outside parties for a specific use. Unreserved fund balances reflect the balances available for appropriation for

(Note 1 Continued)

the general purposes of the fund. Management may designate a portion of the unreserved fund balance for a specific purpose, but designations are tentative management plans that are subject to change.

The nature of reserved and designated fund balances is explained below:

“Encumbrances and contracts” indicates assets required to meet future payment obligations.

“Inventory” indicates consumable supplies held in stock by governmental fund types.

“Advances” indicates assets which have been advanced to other funds on a long-term basis.

“Balances forward” indicates unexpended funds brought forward to the next year, which are legally restricted for general government; health and social services; education and support services; law, justice and public safety; regulation of business; transportation or recreation and resource development purposes.

“Investment in municipal securities” indicates assets restricted for the purchase of municipal securities.

“Permanent fund principal” indicates assets reserved for the purpose of the permanent fund.

“Fiscal emergency” indicates assets restricted for use in a State fiscal emergency, as declared by the Legislature and the Governor.

“Debt service” indicates assets reserved for the retirement of long-term obligations.

“Other” generally indicates assets that, because of their nature, are unavailable for expenditures.

“Unreserved, designated” indicates assets that have been designated by the Legislature or governing board for specific purposes.

Note 11 provides a disaggregation of governmental fund balances, reserved for other.

E. Intergovernmental Assistance Programs

The State participates in various federal award programs. Federal awards are received by the State in both cash and noncash forms. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Certain grants have matching requirements in which the State must contribute a proportionate share of the total costs of a program. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Note 2 - Budgetary and Legal Compliance

Budgetary Process and Control

The Governor must submit his proposed budget for the Executive Branch to the State Legislature not later than the 14th day before each regular session, which convenes every odd-numbered year. The budget presented spans the next two fiscal years, and contains detailed estimates of revenues and expenditures. The Legislature enacts the budget through passage of the General Appropriations Act, which allows expenditures from unrestricted revenues, and the Authorized Expenditures Act, which allows expenditures from revenues collected for specific purposes. Once passed and signed, the budget becomes the State’s financial plan for the next two fiscal years.

The legal level of budgetary control, the level at which appropriations are approved and the level at which over expenditure of appropriations or transfers of appropriated amounts may not occur without

Legislative action, is at the total program level within each department or agency.

Limited budgetary revisions may be made without Legislative action through the following management/administrative procedures. Revisions of more than \$20,000, which would increase or decrease program expenditures by the lesser of 10% of the level approved by the Legislature or \$50,000, must be approved by the Legislative Interim Finance Committee (LIFC). Revisions not exceeding this threshold require only budget director approval. The LIFC approval is not equivalent to governing body approval as total appropriations for a program may not be increased except as follows. The Legislature appropriates limited funds to the Contingency Fund (a special revenue fund), which may be allocated to programs by the LIFC upon recommendation of the Board of Examiners.

(Note 2 Continued)

Allocations totaling \$17,052,091 were made in the 2003 fiscal year. Unencumbered appropriations lapse at the end of each fiscal year, unless specific authority to carry forward is granted in the Appropriations Act. Unexpended authorized resources under the Authorized Expenditures Act are carried forward for expenditure in the next fiscal period.

Budgets are legally adopted for the General Fund and special revenue funds. However, certain activity within such funds may be unbudgeted. The State's budget is prepared principally on a modified accrual basis, with the following exceptions:

- 1) Cash placed in petty cash funds or outside bank accounts is considered expended for budgetary purposes.
- 2) Advances to other funds are considered expenditures. Repayments of such advances are considered revenues.

3) Certain prepaid/deferred assets are considered expended for budgetary purposes. Inventory is an expenditure for budgetary purposes. Certain deferred revenue is considered revenue for budgetary purposes.

4) Expenditures are only recognized if the liability is liquidated within 45 days after the fiscal year end.

5) Revenue from grants is only recognized when it is received in cash.

6) Encumbrances for goods or services not received by fiscal year end are considered an expenditure of the current period, if received and paid within 45 days.

The Budgetary Comparison Schedule is presented as Required Supplementary Information (RSI) in this report. Actual amounts in this schedule are presented on a budgetary basis. Because this basis differs from accounting principles generally accepted in the United States of America (GAAP), a reconciliation between the budgetary and GAAP basis is presented in the RSI.

Note 3 - Deposits and Investments

A. Summary of Deposit and Investment Balances

Following is a reconciliation of the State and its component units' deposit and investment balances as of June 30, 2003 (expressed in thousands):

	Primary Government	Fiduciary Funds	Total Primary Government and Fiduciary Funds	Component Units	Total Reporting Entity
Cash and pooled investments	\$ 1,336,406	\$ 785,239	\$ 2,121,645	\$ 114,019	\$ 2,235,664
Investments	1,701,941	14,728,492	16,430,433	378,026	16,808,459
Collateral on loaned securities	738,426	1,542,640	2,281,066	17,866	2,298,932
Restricted assets (Note 6)	107,448	-	107,448	6,319	113,767
Total	\$ 3,884,221	\$ 17,056,371	\$ 20,940,592	\$ 516,230	\$ 21,456,822
Carrying amount of deposits			\$ 500,034	\$ 109,114	\$ 609,148
Total investments			20,440,558	407,116	20,847,674
Total			\$ 20,940,592	\$ 516,230	\$ 21,456,822

B. Deposits

In accordance with Nevada Revised Statutes, the State Treasurer may deposit funds into any state or national bank, credit union or savings and loan association covered by federal depository insurance. Statutes require that all deposits in excess of insured amounts be secured by collateral composed of: obligations of the United States; bonds of this State; bonds of any county, municipality or school district within this State; promissory notes secured by first deeds of trust or instruments in which the State is permitted to invest. Additionally, various statutes have authorized State agencies to deposit funds in accounts outside the custody of the State Treasurer. These outside accounts must follow the same guidelines as deposits made by the State Treasurer.

(Note 3 Continued)

At June 30, 2003, deposits were held in various institutions throughout the State as follows (expressed in thousands):

	Carrying Value	Bank Balance
Primary government and fiduciary funds:		
Insured or collateralized with securities held by the State or by an agent of the State in State's name	\$ 37,991	\$ 104,963
Deposits in the U.S. Treasury investment pool in the name of the State	440,448	440,448
Uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the State's name	21,595	70,765
Total primary government and fiduciary funds	500,034	616,176
Component units:		
Component unit's share in State Pool of deposits	10,692	508
Uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the State's name	98,422	98,422
Total component units	109,114	98,930
Total deposits reporting entity	\$ 609,148	\$ 715,106

C. Investments

Nevada Revised Statute (NRS) 355.140 details the types of securities in which the State may invest. In general, authorized investments include: securities guaranteed by federal, state, county or incorporated city governments; corporate or depository institution debt securities that are rated AAA or A-1 by national rating agencies; and registered money market funds whose policies meet the criteria set forth in the statute. Additionally, the State may invest in limited types of repurchase agreements; however, statutes generally prohibit the State from entering into reverse-repurchase agreements. The State's Permanent School Fund is further limited by statute as to the types of investments in which it may invest (NRS 355.060). Cash and Investments are also discussed at Note 1 under Assets, Liabilities and Net Assets/Fund Balance.

Investments can only be made after a diligent inquiry into the risk associated with the investment and after receiving a written legal opinion of the Attorney General as to the validity and authority of the investment. The Board of Finance reviews the State's investment policies at least every four months. The Board is comprised of the Governor, the State Controller, the State Treasurer and two members appointed by the Governor, one of which must be actively engaged in commercial banking in the State.

During fiscal year 2003, the Public Employees' Retirement System (PERS) and the Legislators' Retirement System (LRS) entered into certain derivative

transactions. These transactions included foreign exchange forward contracts, exchange traded fixed income futures and options, asset backed securities and mortgage backed securities. In addition, PERS and LRS have investments in commingled funds that include derivative instruments such as foreign exchange forward contracts, futures contracts and fixed income futures contracts.

These transactions are designed to stabilize investment cash flows, to reduce foreign exchange risk, to enhance return on the investment of cash and to manage market risks associated with the underlying securities. They may also reduce exposure to changes in stock prices, interest rates and currency exchange rates. Management believes that it is unlikely that any of the derivatives used could have a material adverse effect on the financial condition of the Systems.

The following table (expressed in thousands) categorizes the State's investments to give an indication of the level of risk associated with those investments at June 30, 2003. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name.

(Note 3 Continued)

	Category			Unclassified as to Risk	Fair Value
	1	2	3		
Primary government and fiduciary funds:					
Equity securities	\$ 5,682,851	\$ -	\$ -	\$ -	\$ 5,682,851
Fixed income securities	4,670,863	-	-	-	4,670,863
Foreign investments	2,483,280	-	-	-	2,483,280
Municipal bonds	1,193,600	-	-	-	1,193,600
U.S. Government securities	778,993	-	220,184	-	999,177
Commercial paper	440,956	-	-	-	440,956
Asset backed securities	221,212	-	-	-	221,212
Mortgage backed loans	69,775	-	-	-	69,775
Repurchase agreements	146,638	-	-	-	146,638
Negotiable certificates of deposit	59,719	-	-	-	59,719
Corporate notes	22,035	-	-	-	22,035
Corporate bonds	11,790	-	-	-	11,790
Other short term investments	99	-	143,629	-	143,728
Investment agreements	-	-	144,964	-	144,964
	<u>15,781,811</u>	<u>-</u>	<u>508,777</u>	<u>-</u>	<u>16,290,588</u>
Mortgage loans				3,410	3,410
Other investments				130,008	130,008
Real estate				1,047,856	1,047,856
				<u>1,181,274</u>	<u>1,181,274</u>
Investments held by broker-dealers under securities loans:					
Equity securities				673,886	673,886
Fixed income securities				619,804	619,804
Foreign investments				108,802	108,802
U.S. Government securities				833,825	833,825
				<u>2,236,317</u>	<u>2,236,317</u>
Investments held by agents in mutual funds for:					
General fund				216	216
Fiduciary funds				732,163	732,163
				<u>732,379</u>	<u>732,379</u>
Total primary government and fiduciary funds	<u>15,781,811</u>	<u>-</u>	<u>508,777</u>	<u>4,149,970</u>	<u>20,440,558</u>
Component units:					
Equity securities	-	-	26,377	-	26,377
Asset backed securities	17,937	-	-	-	17,937
U. S. Government securities	9,581	-	488	-	10,069
Corporate bonds	-	-	1,285	-	1,285
Other short term investments	-	-	1,977	-	1,977
Negotiable certificates of deposit	324	-	-	-	324
Commercial paper	324	-	-	-	324
Corporate notes	161	-	-	-	161
Mortgage backed loans	762	-	-	-	762
	<u>29,089</u>	<u>-</u>	<u>30,127</u>	<u>-</u>	<u>59,216</u>
Investments in partnerships				93,001	93,001
Investments held by agents in mutual funds for:					
University System				254,899	254,899
Total component units	<u>29,089</u>	<u>-</u>	<u>30,127</u>	<u>347,900</u>	<u>407,116</u>
Total investments reporting entity	<u>\$ 15,810,900</u>	<u>\$ -</u>	<u>\$ 538,904</u>	<u>\$ 4,497,870</u>	<u>\$ 20,847,674</u>

Investments held in the Local Government Investment Pool (LGIP) and Nevada Enhanced Savings Term (NVEST) are specifically identifiable investment securities and are included in the table above. LGIP and NVEST are investment trust funds governed by the Nevada State Board of Finance and administered by the Nevada State Treasurer. LGIP and NVEST are discussed further under Note 1, Assets, Liabilities and Net Assets/Fund Balance. Complete financial statements for LGIP and NVEST may be obtained from the State Treasurer's Office, 101 N. Carson Street, Suite 4, Carson City, NV, 89701.

(Note 3 Continued)

D. Securities Lending

NRS 355.135 authorizes the State Treasurer to participate in securities lending transactions, where the State's U.S. Government securities are loaned to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The State's securities lending agent administers the securities lending program and receives cash or other securities equal to at least 102% of the fair value of the loaned securities plus accrued interest as collateral for securities of the type on loan at year-end. The collateral for the loans is maintained at 102%, and the value of the securities borrowed must be determined on a daily basis.

Securities on loan as of June 30, 2003 for cash collateral are presented as unclassified in the preceding table of credit risk. At year-end, the State has no credit risk exposure to borrowers because the amount the State owes to borrowers exceeds the amounts the borrowers owe to the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. The contract with the securities lending agent requires it to indemnify the State for all losses relating to securities lending transactions. There were no losses resulting from borrower default during the period nor were there any recoveries of prior period losses.

There are no restrictions on the amount of securities that can be loaned. Either the State or the borrower can terminate all open securities loans on demand. All term securities loans can be terminated with five days notice by either the State or the borrower. Cash collateral is invested in accordance with the investment guidelines approved by the Board of Finance. The maturities of the investments made with cash collateral generally match the maturities of the securities loans.

The fair value of securities on loan at June 30, 2003 (excluding PERS) is \$833,824,976. The fair value of the collateral received in securities lending arrangements (excluding PERS) of \$852,455,970 is reported in the Statement of Net Assets and the Statement of Fiduciary Net Assets as an asset with a related liability which represents total collateral at June 30, 2003. Such collateral consists of cash, commercial paper, repurchase agreements, and domestic corporate/fixed income securities. The total collateral received is in excess of the fair value of the investments held by brokers/dealers under the securities lending agreement. The State incurred costs of \$11,091,226 relating to securities lending transactions. These costs are included as

general government expenditures for governmental funds, as interest expense for proprietary fund types, and as cost of securities lending on the statement of changes in fiduciary net assets for the fiduciary funds.

PERS also maintains a securities lending program under the authority of the "prudent person" standard of NRS 286.682. Securities loaned under this program consist of U.S. Treasury Obligations, corporate fixed income securities, international fixed income securities, equity securities and international equity securities. Collateral received is made up of cash, cash equivalents, corporate fixed income securities and U.S. Treasury Obligations. Collateral received must equal at least 102% of the market value of the underlying security and is marked to market daily.

Securities on loan as of June 30, 2003 for cash collateral are presented as unclassified in the preceding table of credit risk. At year-end, PERS has no credit risk exposure to borrowers because the amount PERS owes to borrowers exceeds the amounts the borrowers owe to PERS. PERS has no discretionary authority to sell or pledge collateral received or securities loaned. The contract with the securities lending agent requires it to indemnify PERS for all losses relating to securities lending transactions. There were no losses resulting from borrower default during the period nor were there any recoveries of prior period losses.

PERS may only loan up to 33 1/3% of its total portfolio. Either PERS or the borrower can terminate all securities loans on demand. The securities lending agent is authorized to invest collateral only in high quality, short-term investment vehicles in accordance with PERS' Investment Objectives and Policies. The maturities of the investments made with cash collateral generally match the maturities of the securities loaned.

The fair value of securities on loan at June 30, 2003 is \$1,402,491,377. The fair value of the cash collateral received in securities lending arrangements of \$1,446,475,846 is reported on the Statement of Fiduciary Net Assets as an asset with a related liability. At June 30, 2003, PERS has collateral with a fair value of \$1,449,064,521 consisting of cash, cash equivalents, corporate fixed income securities and U.S. Treasury Obligations in excess of the market value of investments held by brokers/dealers under a securities lending agreement. PERS incurred costs of \$20,250,900 relating to securities lending transactions.

Note 4 - Receivables

Receivable balances are disaggregated by type and presented separately in the financial statements. Significant receivable balances not expected to be collected within one year and not already classified in the fund financials are presented below (expressed in thousands):

	Governmental Funds	University System
As shown on financial statements:		
Intergovernmental receivables	\$ 378,159	\$ 27,619
Notes/loans receivable	802	10,673
Total	\$ 378,961	\$ 38,292
Classified:		
Current portion	\$ 194,355	\$ 30,447
Noncurrent portion:		
Intergovernmental receivables	183,966	-
Notes/loans receivable	640	7,845
Total noncurrent portion	184,606	7,845
Total	\$ 378,961	\$ 38,292

Not included in the receivable balances are amounts considered to be uncollectible. \$39.2 million of taxes receivable in the governmental funds are estimated to be uncollectible, of which \$27.6 million are from businesses filing bankruptcy. Uncollectible accounts receivable in the governmental funds total \$16.5 million. The proprietary funds have \$17.9 million in uncollectible accounts receivable of which \$10.0 million is from unemployment contributions and benefit overpayments.

Note 5 - Interfund Transactions**A. Interfund Advances**

A summary of interfund advances at June 30, 2003, follows (expressed in thousands):

	Advances From Major Funds			
	General	State Highway	Consolidated Bond Interest and Redemption	Total
Advances To				
Nonmajor governmental	\$ 794	\$ -	\$ -	\$ 794
Nonmajor enterprise	94	-	-	94
Internal service	16,196	13	3,389	19,598
Total other funds	17,084	13	3,389	20,486
Fiduciary	3,699	-	-	3,699
Total	\$ 20,783	\$ 13	\$ 3,389	\$ 24,185

Interfund advances are the portions of interfund balances that are *not* expected to be repaid within one year. The interfund balances that are expected to be repaid within one year are shown in the Due From/Due To summary below.

Advances are generally made to finance capital expenditures or as a loan for operating purposes. The increase in the advance between the General fund and the Internal Service funds is for a human resources/payroll system.

(Note 5 Continued)

B. Due From/Due To Other Funds and Component Units

A summary of due from and due to other funds and component units at June 30, 2003, is shown below (expressed in thousands):

	Due To					
	Major Governmental Funds					
	General	State Highway	Municipal Bond Bank	Cons Bond Interest and Redemption	Nonmajor Governmental	Total Governmental
Due From						
Major Governmental Funds:						
General	\$ -	\$ 3,627	\$ 15	\$ 1,423	\$ 19,495	\$ 24,560
State Highway	1,072	-	-	265	32,823	34,160
Municipal Bond Bank	7	-	-	2,182	-	2,189
Nonmajor governmental	21,587	52	-	1,544	1,741	24,924
Total Governmental	22,666	3,679	15	5,414	54,059	85,833
Major Enterprise Funds:						
Housing Division	44	-	-	-	-	44
Nonmajor enterprise	2,067	1	-	-	8	2,076
Total Enterprise	2,111	1	-	-	8	2,120
Internal Service	4,600	96	-	128	174	4,998
Total other funds	\$ 29,377	\$ 3,776	\$ 15	\$ 5,542	\$ 54,241	\$ 92,951
Fiduciary	\$ 243	\$ -	\$ -	\$ -	\$ 186	\$ 429
Component Units:						
University System	\$ 967	\$ -	\$ -	\$ 8,190	\$ -	\$ 9,157
Colorado River Commission	3	-	-	-	-	3
Total Component Units	\$ 970	\$ -	\$ -	\$ 8,190	\$ -	\$ 9,160

	Due To					
	Major Enterprise Funds					
	Housing Division	Nonmajor Enterprise	Total Enterprise	Internal Service	Total Other Funds	Fiduciary
Due From						
Major Governmental Funds:						
General	\$ -	\$ 1,791	\$ 1,791	\$ 4,500	\$ 30,851	\$ 304,686
State Highway	-	8	8	810	34,978	2,117
Municipal Bond Bank	-	-	-	-	2,189	-
Nonmajor governmental	1	15	16	2,261	27,201	57
Total Governmental	1	1,814	1,815	7,571	95,219	306,860
Major Enterprise Funds:						
Housing Division	-	-	-	6	50	-
Nonmajor enterprise	-	-	-	50	2,126	85
Total Enterprise	-	-	-	56	2,176	85
Internal Service	2	30	32	373	5,403	8
Total other funds	\$ 3	\$ 1,844	\$ 1,847	\$ 8,000	\$ 102,798	\$ 306,953
Fiduciary	\$ -	\$ 9	\$ 9	\$ 2	440	\$ 19,934
Component Units:						
University System	\$ -	\$ 16	\$ 16	\$ 521	\$ 9,694	\$ -
Colorado River Commission	-	-	-	4	7	-
Total Component Units	\$ -	\$ 16	\$ 16	\$ 525	\$ 9,701	\$ -

	Due To		
	Component Units		
	University System	Colorado River Commission	Total Component Units
Due From			
Major Governmental Funds:			
General	\$ 9,012	\$ 240	\$ 9,252
State Highway	360	-	360
Nonmajor governmental	69,464	-	69,464
Total Governmental	78,836	240	79,076
Nonmajor enterprise	89	-	89
Internal Service	3	-	3
Total other funds	\$ 78,928	\$ 240	\$ 79,168
Fiduciary	\$ 5	\$ -	\$ 5

The balances result from timing differences between the date goods and services are provided or reimbursable expenses occur and the date the transactions are recorded in the accounting system and payment is made.

(Note 5 Continued)

C. Transfers From/Transfers To Other Funds

A summary of transfers between funds for the year ended June 30, 2003, is shown below (expressed in thousands):

	Transfers Out/To					
	Major Governmental Funds					
	General	State Highway	Municipal Bond Bank	Cons Bond Interest and Redemption	Stabilize the Operations of State Govt	Nonmajor Governmental
Transfers In/From						
Major Governmental Funds:						
General	\$ -	\$ 2,038	\$ 259	\$ -	\$ 135,000	\$ 89,419
State Highway	3,463	-	-	-	-	1,068
Consolidated Bond Interest and Redemption	65	-	81,721	-	-	9,439
Nonmajor governmental	36,667	18,248	-	5	-	688
Total Governmental	40,195	20,286	81,980	5	135,000	100,614
Nonmajor enterprise	557	-	-	132	-	90
Internal Service	131	-	-	-	-	115
Total other funds	\$ 40,883	\$ 20,286	\$ 81,980	\$ 137	\$ 135,000	\$ 100,819

	Transfers Out/To					
	Major Enterprise Funds					
	Total Governmental	Housing Division	Nonmajor Enterprise	Total Enterprise	Internal Service	Total Other Funds
Transfers In/From						
Major Governmental Funds:						
General	\$ 226,716	\$ 43	\$ 17,453	\$ 17,496	\$ 2,122	\$ 246,334
State Highway	4,531	-	-	-	46	4,577
Consolidated Bond Interest and Redemption	91,225	-	-	-	-	91,225
Nonmajor governmental	55,608	-	74	74	250	55,932
Total Governmental	378,080	43	17,527	17,570	2,418	398,068
Nonmajor enterprise	779	-	-	-	-	779
Internal Service	246	-	-	-	-	246
Total other funds	\$ 379,105	\$ 43	\$ 17,527	\$ 17,570	\$ 2,418	\$ 399,093

The general purpose for transfers is to move monies from funds required by statute to collect them to the funds required by statute or budget to expend them, and to move monies collected for debt service purposes to the debt service fund required to make the payment. An exception was a transfer to the General Fund of \$135,000,000 from the Stabilize the Operations of State Government ("Rainy Day") fund. The Nevada Legislature approved this transfer during the 2003 session to offset a projected deficit in the General Fund.

In addition, the Nevada Legislature approved appropriations for the support of the University System, a component unit. Payments to the University System of \$375,726,000 are reported as education and support service expenses in the Statement of Activities and as education and support service expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds. A corresponding amount is reported as general revenue of the University System in the Statement of Activities.

Note 6 - Restricted Assets

Various debt service, operation and maintenance, capital improvement and construction (acquisition) funding requirements of bond covenants, and trust indentures are recorded as restricted assets on the Statement of Net Assets. The components of restricted assets at June 30, 2003 are as follows (expressed in thousands):

(Note 6 Continued)

	Business-Type Activities	Total Primary Government	Component Units
Restricted:			
Cash	\$ -	\$ -	\$ 6,319
Investments	107,448	107,448	-
Total	<u>\$ 107,448</u>	<u>\$ 107,448</u>	<u>\$ 6,319</u>
Restricted for:			
Debt service	\$ -	\$ -	\$ 1,615
Debt service reserve	107,448	107,448	-
Construction reserve	-	-	3,999
Other and all purpose reserve	-	-	705
Total	<u>\$ 107,448</u>	<u>\$ 107,448</u>	<u>\$ 6,319</u>

Note 7 - Capital Assets

Capital asset activity of the primary government for the year ended June 30, 2003, was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 100,164	\$ 443	\$ -	\$ 100,607
Construction in progress	223,084	24,323	(46,455)	200,952
Infrastructure	2,524,113	74,269	-	2,598,382
Rights-of-way	353,661	38,868	(9,000)	383,529
Total capital assets, not being depreciated	<u>3,201,022</u>	<u>137,903</u>	<u>(55,455)</u>	<u>3,283,470</u>
Capital assets, being depreciated/amortized				
Buildings	751,843	28,622	-	780,465
Improvements other than buildings	72,735	4,782	-	77,517
Furniture and equipment	321,666	24,800	(14,205)	332,261
Software costs	44,055	15,540	-	59,595
Total capital assets, being depreciated/amortized	<u>1,190,299</u>	<u>73,744</u>	<u>(14,205)</u>	<u>1,249,838</u>
Less accumulated depreciation /amortization for:				
Buildings	(184,594)	(22,070)	-	(206,664)
Improvements other than buildings	(32,813)	(3,339)	-	(36,152)
Furniture and equipment	(228,363)	(27,847)	10,881	(245,329)
Software costs	(20,585)	(5,702)	-	(26,287)
Total accumulated depreciation/amortization	<u>(466,355)</u>	<u>(58,958)</u>	<u>10,881</u>	<u>(514,432)</u>
Total capital assets, being depreciated/amortized, net	<u>723,944</u>	<u>14,786</u>	<u>(3,324)</u>	<u>735,406</u>
Governmental activities capital assets, net	<u>\$ 3,924,966</u>	<u>\$ 152,689</u>	<u>\$ (58,779)</u>	<u>\$ 4,018,876</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 435	\$ -	\$ -	\$ 435
Construction in progress	-	304	-	304
Total capital assets, not being depreciated	<u>435</u>	<u>304</u>	<u>-</u>	<u>739</u>
Capital assets, being depreciated				
Buildings	2,978	-	-	2,978
Improvements other than buildings	631	-	-	631
Furniture and equipment	4,510	447	(121)	4,836
Total capital assets, being depreciated	<u>8,119</u>	<u>447</u>	<u>(121)</u>	<u>8,445</u>
Less accumulated depreciation for:				
Buildings	(1,663)	(83)	-	(1,746)
Improvements other than buildings	(464)	(12)	-	(476)
Furniture and equipment	(3,663)	(252)	106	(3,809)
Total accumulated depreciation	<u>(5,790)</u>	<u>(347)</u>	<u>106</u>	<u>(6,031)</u>
Total capital assets, being depreciated, net	<u>2,329</u>	<u>100</u>	<u>(15)</u>	<u>2,414</u>
Business-type activities capital assets, net	<u>\$ 2,764</u>	<u>\$ 404</u>	<u>\$ (15)</u>	<u>\$ 3,153</u>

(Note 7 Continued)

Current period depreciation and amortization expense was charged to functions of the primary government as follows (expressed in thousands):

Governmental activities:	
General government	\$ 3,193
Education, support services	1,256
Health, social services	8,898
Law, justice, public safety	20,571
Recreation, resource development	4,845
Transportation	11,506
Regulation of business	605
Unallocated	1,152
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their use of the assets	6,932
Total depreciation/amortization expense - governmental activities	\$ 58,958
Business-type activities:	
Enterprise	347
Total depreciation expense - business-type activities	\$ 347

Capital asset activity of the University System for the year ended June 30, 2003, was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
University System:				
Capital assets, not being depreciated				
Construction in progress	\$ 35,130	\$ 54,385	\$ (26,890)	\$ 62,625
Land	46,082	3,117	-	49,199
Collections	4,284	551	-	4,835
Total capital assets, not being depreciated	85,496	58,053	(26,890)	116,659
Capital assets, being depreciated				
Buildings	1,059,661	52,423	(6,080)	1,106,004
Land and improvements	68,306	3,916	-	72,222
Machinery and equipment	195,075	25,800	(12,405)	208,470
Library books and media	76,922	7,111	(2,855)	81,178
Total capital assets, being depreciated	1,399,964	89,250	(21,340)	1,467,874
Less accumulated depreciation for:				
Buildings	(266,824)	(26,000)	2,156	(290,668)
Land and improvements	(43,848)	(3,420)	-	(47,268)
Machinery and equipment	(125,185)	(18,550)	10,270	(133,465)
Library books and media	(59,854)	(8,015)	2,854	(65,015)
Total accumulated depreciation	(495,711)	(55,985)	15,280	(536,416)
Total capital assets, being depreciated, net	904,253	33,265	(6,060)	931,458
University System activity capital assets, net	\$ 989,749	\$ 91,318	\$ (32,950)	\$ 1,048,117

Note 8 - Long - Term Obligations

A. Bonds Payable

The State issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and special obligation bonds are direct obligations and pledge the full faith and credit of the State. General obligation bonds and special obligation bonds of the primary government outstanding at June 30, 2003 are comprised of the following (expressed in thousands):

	Interest Rates	Original Amount	Principal Outstanding
Governmental activities:			
General obligation bonds:			
Subject to Constitutional Debt Limitation	3.0-10.0%	\$ 1,047,735	\$ 806,600
Exempt from Constitutional Debt Limitation	1.60-8.5%	1,929,241	1,371,618
Special obligation bonds:			
Exempt from Constitutional Debt Limitation- Highway Improvement Revenue Bonds	4.5-5.25%	100,000	83,505
Governmental activities bonds payable		<u>3,076,976</u>	<u>2,261,723</u>
Business-type activities:			
General obligation bonds:			
Exempt from Constitutional Debt Limitation	2.6-9.65%	2,146,172	1,239,128
Business-type activities bonds payable		<u>2,146,172</u>	<u>1,239,128</u>
Total bonds payable		<u>\$ 5,223,148</u>	<u>\$ 3,500,851</u>

B. Changes in Long-Term Liabilities

The following is a summary of changes in long-term obligations of the primary government for the fiscal year ended June 30, 2003 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 2,185,798	\$ 83,055	\$ (90,635)	\$ 2,178,218	\$ 89,119
Special obligation bonds	91,935	-	(8,430)	83,505	8,820
Total bonds payable	<u>2,277,733</u>	<u>83,055</u>	<u>(99,065)</u>	<u>2,261,723</u>	<u>97,939</u>
Obligations under capital leases	5,402	4,993	(3,243)	7,152	1,553
Compensated absences obligations	74,351	94,437	(90,621)	78,167	49,850
Arbitrage rebate liability	562	13	-	575	510
Certificates of participation	14,395	-	(630)	13,765	660
Judicial retirement net pension obligation	13,389	-	(13,389)	-	-
Governmental activities long-term obligations	<u>\$ 2,385,832</u>	<u>\$ 182,498</u>	<u>\$ (206,948)</u>	<u>\$ 2,361,382</u>	<u>\$ 150,512</u>
Business-type activities:					
Bonds payable	\$ 1,371,250	\$ 128,830	\$ (260,952)	\$ 1,239,128	\$ 21,658
Compensated absences obligations	1,243	1,709	(1,585)	1,367	868
Arbitrage rebate liability	43	4	-	47	-
Business-type activities long-term obligations	<u>\$ 1,372,536</u>	<u>\$ 130,543</u>	<u>\$ (262,537)</u>	<u>\$ 1,240,542</u>	<u>\$ 22,526</u>

C. Debt Service Requirements for Bonds

Debt service requirements (principal and interest) for all long-term bonds and notes outstanding at June 30, 2003, of the primary government are summarized in the table following (expressed in thousands). Debt service requirements for all capital leases and installment purchases are presented in Section I of this note. No debt service requirements are presented for compensated absences obligations since the repayment dates are unknown.

(Note 8 Continued)

Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 97,939	\$ 115,439	\$ 21,658	\$ 59,231
2005	107,606	110,371	23,307	58,446
2006	122,705	104,971	25,242	56,235
2007	126,707	101,104	26,585	55,635
2008	134,686	96,649	31,439	54,170
2009-2013	643,365	357,458	152,175	245,494
2014-2018	459,160	212,684	219,081	195,921
2019-2023	311,265	112,853	239,647	138,875
2024-2028	236,940	33,477	231,781	73,102
2029-2033	21,350	1,068	171,658	25,316
2034-2038	-	-	96,415	3,689
2039-2043	-	-	140	4
Total	\$ 2,261,723	\$ 1,246,074	\$ 1,239,128	\$ 966,118

D. Constitutional Debt Limitations

Section 3, Article 9, of the State Constitution (as amended) limits the aggregate principal amount of the State's public debt to two percent (2%) of the assessed valuation of the State. Exempt from this limitation are debts authorized by the Legislature that are incurred for the protection and preservation of, or for obtaining the benefits of, any property or natural resources within the State. At June 30, 2003, the debt limitation and its unused portion are computed as follows (expressed in thousands):

Debt limitation (2% of total assessed valuation)	\$ 1,276,838
Less: Bonds and leases payable as of June 30, 2003, subject to limitation	(825,082)
Remaining debt capacity	<u>\$ 451,756</u>

E. Nevada Municipal Bond Bank

General obligation bonds have been issued through the Nevada Municipal Bond Bank, a special revenue fund, as authorized by NRS 350A. These bonds are subject to statutory limitation of \$1.8 billion and are exempt from the Constitutional Debt Limitation. Proceeds from the bonds are used to purchase validly issued general obligation bonds of the State's local governments to finance projects related to natural resources. The State anticipates that the debt service revenue it receives from the participating local governments will be sufficient to pay the debt service requirements of the State bonds as they become due. Thirty-nine projects were funded through the Nevada Municipal Bond Bank as of June 30, 2003, and total investments in local governments amounted to \$1,071,280,000.

F. Refunded Debt and Redemptions

On July 11, 2002 the State issued \$60,915,000 General Obligation (Limited Tax) Capital Improvement, Cultural Affairs and Refunding Bonds to partially advance refund \$6,140,000 of the November 1, 1995C General Obligation (Limited Tax) Capital Improvement Bonds and to partially advance refund \$6,095,000 of the November 15, 1996A General Obligation (Limited Tax) Capital Improvement in order to restructure debts. The reacquisition price exceeded the carrying amount of the old debt by \$899,758. This amount is being reported as a deferred charge and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt. The State completed the refunding to increase its total debt service payments by \$2,859,856 and to obtain an economic loss or present value loss of \$1,182.

In the current and prior years, the State defeased certain general obligations and other bonds by placing the proceeds of new bonds and other monies in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State's financial statements. The total amount of defeased issues at June 30, 2003 is \$616,274,000.

(Note 8 Continued)

G. Amounts Available and Amounts to be Provided for Debt Service

At June 30, 2003, the amount available to service debt in the Consolidated Bond Interest and Redemption debt service fund is \$45,348,867. At June 30, 2003, the amount available to service debt in the Highway Revenue Bonds debt service fund is \$5,493,602. At June 30, 2003, the amount available to service the debt in the Municipal Bond Bank special revenue fund is \$1,071,282,849. At June 30, 2003, the amount available to service the Water Project Bonds in the Water Project Loans proprietary fund is \$128,218,508.

The amount to be provided by other governments of \$188,185,000 is due from the Southern Nevada Water Authority (SNWA). Until January 1, 1996 the Colorado River Commission (CRC), a component unit responsible for managing Nevada's interest in the water and power resources available from the Colorado River, operated the Southern Nevada Water System (SNWS). In accordance with Chapter 393 of the 1995 Legislature, certain rights, powers, duties and liabilities of SNWS were transferred from the State and CRC to the SNWA effective January 1, 1996. These rights, powers, duties and liabilities included, but were not limited to, the State of Nevada General Obligation bonds, the existing water user contracts, the Service Contract between CRC and the Las Vegas Valley Water District, and all other contracts related to the SNWS including contracts for capital improvement. Accordingly, the State records the general obligation bonds previously reported in CRC and an associated amount to be provided by other government in the Government-wide Financial Statements.

H. Bond Indenture Provisions

There are restrictions and limitations contained in the various bond indentures. The State is in compliance with the requirements of the bond covenants.

I. Capital Leases

The State has entered into various agreements for the lease of equipment. Assets acquired under such leases at June 30, 2003, have a historical cost of \$10,372,000 with accumulated depreciation of \$3,464,000.

For all capital leases of the primary government, the gross minimum lease payments and the present value of the net minimum lease payments as of June 30, 2003 follow (expressed in thousands):

Year Ended June 30	Governmental Activities
2004	\$ 1,928
2005	1,745
2006	1,586
2007	1,317
2008	632
2009-2012	843
Total minimum lease payments	8,051
Less: amount representing interest	(899)
Obligations under capital leases	<u>\$ 7,152</u>

J. Arbitrage Rebate Requirement

The Tax Reform Act of 1986 imposes a rebate requirement with respect to some bonds issued by the State. Under this requirement, an amount equal to the sum of (a) the excess of the aggregate amount earned on all investments (other than certain specified exceptions) over the amount that would have been earned if all investments were invested at a rate equal to the yield on the bonds, and (b) any income earned on the excess described in (a), must be rebated to the United States Treasury, in order for the interest on the bonds to be excluded from gross income for federal income tax purposes. In accordance with the Internal Revenue Service Regulations, an arbitrage rebate liability has been calculated as of June 30, 2003. The liability as of June 30, 2003, and changes for the fiscal year then ended is presented in Section B of this note.

K. Certificates of Participation

In fiscal year 1999, the Nevada Real Property Corporation, a blended component unit, issued \$15,000,000 of general obligation certificates of participation to finance the acquisition, construction, installation and equipping of a secured juvenile treatment facility.

Under the certificate of participation financing arrangements, the State is required to make payments from general (ad valorem) taxes in the Consolidated Bond Interest and Redemption debt service fund that approximate the interest and principal payments made by trustees to certificate holders.

(Note 8 Continued)

The following schedule presents future certificates of participation payments as of June 30, 2003 (expressed in thousands):

Year Ended June 30	Principal	Interest
2004	\$ 660	\$ 614
2005	690	583
2006	720	553
2007	755	522
2008	785	490
2009-2013	4,485	1,883
2014-2018	5,670	710
Total	\$ 13,765	\$ 5,355

L. Conduit Debt Obligations

The State has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The State is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2003, there were fifteen series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$740,681,297.

M. Component Unit Obligations

University System – Bonds, notes and capital leases payable by the University System at June 30, 2003 and the changes for the year then ended, consist of the following (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable	\$ 179,950	\$ 109,595	\$ (34,400)	\$ 255,145	\$ 7,735
Capital leases	10,939	1,322	(1,837)	10,424	1,555
Total	\$ 190,889	\$ 110,917	\$ (36,237)	\$ 265,569	\$ 9,290

Tuition and fees, auxiliary enterprises' revenue and certain other revenue as defined in the bond indentures secure the student fee revenue bonds.

The following table presents annual principal and interest payments for bonds and notes payable outstanding at June 30, 2003 (expressed in thousands):

Year Ended June 30	Principal	Interest
2004	\$ 7,735	\$ 12,504
2005	11,660	12,423
2006	9,184	11,816
2007	10,414	11,451
2008	10,531	10,820
2009-2013	48,488	46,908
2014-2018	48,214	34,131
2019-2023	39,249	21,830
2024-2028	31,800	13,005
2029-2033	34,205	4,203
2034-2038	3,665	40
Total	\$ 255,145	\$ 179,131

Accrued compensated absences payable by the University System at June 30, 2003 are \$30,735,000.

(Note 8 Continued)

Future net minimum rental payments that are required under the capital leases by the University System for the years ending June 30 are as follows (expressed in thousands):

<u>Year Ended June 30</u>	<u>Amount</u>
2004	\$ 2,220
2005	1,988
2006	1,781
2007	1,569
2008	1,194
2009-2013	3,885
2014-2018	576
Total minimum lease payments	13,213
Less: amount representing interest	(2,789)
Obligations under capital leases	<u>\$ 10,424</u>

At June 30, 2003 debt in the amount of \$24,100,000 is considered to be extinguished by the University System through refunding of prior issues by a portion of the current issues. Sufficient proceeds were invested in state and local government securities and placed in escrow to assure the timely payment of the maturities of prior issues. Neither the debt nor the escrowed assets are reflected on the financial statements.

Colorado River Commission – Bonds payable, net of premiums/discounts, by the Colorado River Commission (CRC) at June 30, 2003 and the changes for the year then ended, consist of the following (expressed in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 122,216	\$ 36,696	\$ (45,013)	\$ 113,899	\$ 1,135

Scheduled maturities for bonds payable by CRC for the years ending June 30 are as follows (expressed in thousands):

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,135	\$ 6,186
2005	1,225	6,128
2006	1,420	6,059
2007	1,620	5,978
2008	1,705	5,875
2009-2013	28,215	25,332
2014-2018	37,810	16,662
2019-2023	17,045	9,069
2024-2028	22,110	3,834
2029-2030	2,625	123
Total	<u>\$ 114,910</u>	<u>\$ 85,246</u>

Accrued compensated absences payable by CRC at June 30, 2003 are \$207,288.

Note 9 - Pensions and Other Employee Benefits

The Nevada Legislature created various plans to provide benefits to qualified employees and certain elected officials of the State as well as employees of other public employers. The Public Employees' Retirement Board administers the Public Employees' Retirement System of Nevada (PERS), the Legislators' Retirement System of Nevada (LRS) and the Judicial Retirement System of Nevada (JRS). A summary description of the plans follows.

A. PERS

Plan Description - All full-time State employees and full-time employees of participating local government entities in the State are members in the PERS, a defined benefit cost-sharing, multiple-employer public employees' retirement system established in 1947 by the Nevada Legislature. Any government employer in the State may elect to have its general, police and fire department employees covered by PERS.

Benefits, as required by statute, are determined by the number of years of accredited service at the time of retirement and the member's highest average compensation in any 36 consecutive months. Benefit payments to which participants may be entitled under the plan include pension benefits, disability benefits and death benefits. Monthly benefit allowances for regular members are computed at 2.5% of average compensation for each accredited year of service prior to July 1, 2001. For service earned after July 1, 2001, this multiplier is 2.67% of average compensation. Regular members are eligible for retirement at age 65 with 5 years of service, at age 60 with 10 years of service or at any age with 30 years of service. Police and firemen are eligible for retirement at age 65 with 5 years of accredited police or fire service, at age 55 with 10 years of accredited police or fire service, at age 50 with 20 years of accredited police or fire service, or at any age with 25 years of accredited service. A member who retired on or after July 1, 1977, or is an active member whose effective date of membership is before July 1, 1985, is entitled to a benefit of up to 90% of average compensation with 36 or more years of service. Regular members and police and firemen become fully vested as to benefits upon completion of 5 years of service.

Member Contributions - The authority for establishing and amending the obligation to make contributions, and member contribution rates, is provided by statute. New hires of the State of Nevada and public employers, who did not elect the employer-pay contribution plan prior to July 1, 1983, have the option of selecting either the employee and employer contribution plan or the employer-pay contribution plan. One plan provides for matching employee and employer contributions while the other plan provides for employer-pay contributions only.

Funding Policy - PERS' basic funding policy provides for periodic contributions at a level pattern of cost as a percentage of salary throughout an employee's working lifetime, in order to accumulate sufficient assets to pay benefits when due. Although PERS receives an actuarial valuation on an annual basis indicating the contribution rates required to fund PERS on an actuarial reserve basis, both for funding purposes and GASB disclosure purposes, contributions actually made are in accordance with the required rates established by the Legislature. These statutory rates are increased or decreased pursuant to NRS 286.421 and 286.450.

Actuarially required and statutory employee and employer contribution rates, as a percentage of covered payroll, for regular and police and fire members in effect for the fiscal year ended June 30, 2003, were as follows:

	Funding Basis	GASB Disclosure Basis	Statutory Rate
Regular employees:			
Employer-pay plan	20.32%	20.91%	18.75%
Employee/employer plan	10.59%	10.89%	9.75%
Police and Fire employees:			
Employer-pay plan	28.81%	30.13%	28.50%
Employee/employer plan	14.79%	15.45%	14.75%

(Note 9 Continued)

The State's contribution requirements for the current fiscal year and each of the two preceding years were (expressed in thousands):

	2003			2002			2001 (restated)		
	Total State			Total State			Total State		
	Employees' Contribution	Employers' Contribution	Requirement	Employees' Contribution	Employers' Contribution	Requirement	Employees' Contribution	Employers' Contribution	Requirement
Primary Government	\$ 40,908	\$ 99,984	\$ 140,892	\$ 39,227	\$ 94,966	\$ 134,193	\$ 35,348	\$ 85,654	\$ 121,002
Component Units:									
Colorado River Commission	126	246	372	110	206	316	73	166	239
University System	7,149	17,937	25,086	6,452	16,587	23,039	5,896	15,115	21,011
Total component units	7,275	18,183	25,458	6,562	16,793	23,355	5,969	15,281	21,250
Total reporting entity	\$ 48,183	\$ 118,167	\$ 166,350	\$ 45,789	\$ 111,759	\$ 157,548	\$ 41,317	\$ 100,935	\$ 142,252
Contributions as %									
of covered payroll	6%	15%	21%	6%	15%	21%	6%	15%	21%
Contributions as % of									
total contributions of									
all participating entities									
of \$808,869, \$759,356									
and \$716,085	6%	15%	21%	6%	14%	20%	6%	14%	20%

Required Supplementary Information - Schedules of funding progress and employer contributions are presented in the PERS June 30, 2003, comprehensive annual financial report. PERS' financial report may be obtained from the Public Employees' Retirement System, 693 West Nye Lane, Carson City, Nevada 89703.

B. LRS

Plan Description - All State Legislators are members in the Legislators' Retirement System (LRS), a defined benefit, single-employer public employees' retirement system established in 1967 by the Nevada Legislature. LRS is legislated by and functions in accordance with State laws established by the Nevada Legislature. Benefits, as required by statute, are determined by the number of years of accredited service at the time of retirement. Service years include the entire election term whether or not the Legislature is in session. Benefit payments to which participants may be entitled under the plan include pension benefits and death benefits. Monthly benefit allowances are \$25 for each year of service up to thirty years. Contributions and investment earnings provide benefits under the system. Legislators become fully vested as to benefits at age 60 with 8 years of service before July 1, 1985, or at age 60 with 10 years of service after July 1, 1985.

Funding Policy - The Legislator contribution of 15% of compensation is paid by the Legislator only when the

Legislature is in session, as required by statute. The Legislature holds sessions every two years. Prior to 1985, the employee contributions were matched by the employer. The 1985 Legislators' Retirement Act includes NRS 218.2387(2) which states, "The Director of the Legislative Counsel Bureau shall pay to the Board from the Legislative Fund an amount as the contribution of the State of Nevada as employer which is actuarially determined to be sufficient to provide the System with enough money to pay all benefits for which the System will be liable." The Legislature appropriated \$353,016 for fiscal years 2003 and 2004, which is the required biennial State contribution as determined by the actuary. This amount was paid by the Legislative Fund in fiscal 2003 and was recorded half as an employer contribution in fiscal year ended June 30, 2003 and half as deferred revenue at June 30, 2003. Employee contributions of \$69,030 were received in fiscal year 2003, for fiscal years 2003 and 2004. Of the total employee contributions, \$35,100 was recorded as an employee contribution in fiscal year 2003 and \$33,930 was recorded as deferred revenue at June 30, 2003.

Actuarial Information - Actuarial valuations of the LRS are prepared every two years to determine State contributions required to fund the system on an actuarial basis. Actuarial methods and significant assumptions used in the January 1, 2003, actuarial valuation include the following:

(Note 9 Continued)

<i>Actuarial Cost Method:</i>	Entry age normal cost
<i>Amortization Method:</i>	Level percent closed
<i>Remaining Amortization Period:</i>	22 years
<i>Asset Valuation Method:</i>	Five year smoothed market
<i>Actuarial Assumptions:</i>	
(Includes Inflation at 3.5% per year)	
Investment yield	8%
Projected salary increases	None
<i>Retirement Age for Active Members:</i>	Earlier of age 63 or age 60 with 24 years of service
<i>Assumed Mortality Rate:</i>	1983 Group Annuity Mortality Table
<i>Cost of Living (Post-Retirement) Increases:</i>	2% after 3 years of receiving benefits 3% after 6 years of receiving benefits 3.5% after 9 years of receiving benefits 4% after 12 years of receiving benefits 5% after 14 years of receiving benefits

Trend Information - Three-year trend information follows (expressed in thousands):

Fiscal Year Ended	Annual Pension Cost	State Contribution Made	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
6/30/2001	\$ 173	\$ 173	100%	\$ -
6/30/2002	173	173	100%	-
6/30/2003	177	177	100%	-

LRS issues separate financial statements, which are available from the Public Employees' Retirement System, 693 West Nye Lane, Carson City, Nevada 89703.

Required Supplementary Information - A schedule of funding progress is presented in the accompanying Required Supplementary Information (RSI).

C. JRS

Plan Description - The Judicial Retirement System of Nevada (JRS) is a single-employer public employees defined benefit retirement system established in July 2001 by the Nevada Legislature to provide a reasonable base income to justices of the Supreme Court and district judges at retirement. The JRS is legislated by and functions in accordance with laws established by the Nevada Legislature. The JRS was established to provide benefits in the event of retirement, disability, or death of justices of the Supreme Court and district judges, funded on an actuarial reserve basis. The JRS began with initial funding from the State of Nevada on July 20, 2001, and became effective on January 1, 2003.

Benefits are paid according to various options contained in pertinent statutes, dependent upon whether a member was serving as a judge before November 5, 2002. Retiring members who were serving as a judge before November 5, 2002 may select among the two benefit options below. Retiring members who began serving as a justice or judge on or after November 5, 2002 may select only the first option below.

Option 1: Benefits, as required by statute, are determined by the number of years of accredited service at the time of retirement and the member's highest average compensation in any 36 consecutive months. Benefit payments to which participants may be entitled under the plan include pension benefits, disability benefits and death benefits.

Option 2: Retiring members who were serving as a judge prior to November 5, 2002 may select the following benefit: Benefit payments are computed at 4.166% for the first five years of service and 4.166% for each additional year of service, up to total maximum of 22 years, times the member's compensation for their last year of service.

(Note 9 Continued)

Contributions and Funding - Beginning January 1, 2003, the Administrative Office of the Courts shall submit the percentage of compensation determined by the actuary to pay the normal costs and administrative expenses of the JRS. Beginning July 1, 2003, and annually thereafter, the State of Nevada, as employer, will pay to the JRS an amount on the unfunded liability which is actuarially determined to be sufficient to enable the JRS to pay all benefits for which the JRS is liable.

The actuarial valuation at January 1, 2003 determined the annual required contribution for the year ended June 30, 2003, using the entry-age-normal cost method for salary related benefits and the level dollar closed method for non-salary related benefits. The annual required contribution for the year ended June 30, 2003 was \$2,576,900; actual contributions made were \$760,023. Employer contributions are provided in the subsequent fiscal year State budget. The remaining employer contribution of \$1,816,877 is not required to be paid by the State until June 30, 2004.

Actuarial Information - Actuarial valuations of the JRS are prepared annually on a calendar year basis. Significant actuarial assumptions used in the January 1, 2003 valuation include the following:

<i>Actuarial Cost Method:</i>	Entry age normal cost
<i>Amortization Method:</i>	Level dollar closed
<i>Remaining Amortization Period:</i>	34 years
<i>Asset Valuation Method:</i>	Equal to market value
<i>Actuarial Assumptions:</i>	
(Includes Inflation at 3.5% per year)	
Investment yield	8%
Projected salary increases	3% per year
	Longevity increases of 2% per year after four years
<i>Retirement Age for Active Members:</i>	Earlier of age 65 with five years of service, at age 60 with 10 years or at any age with 30 years of service
<i>Assumed Mortality Rate:</i>	1983 Group Annuity Mortality Table
<i>Cost of Living (Post-Retirement) Increases:</i>	2% after 3 years of receiving benefits
	3% after 6 years of receiving benefits
	3.5% after 9 years of receiving benefits
	4% after 12 years of receiving benefits
	5% after 14 years of receiving benefits

JRS issues separate financial statements, which are available from the Public Employees' Retirement System, 693 West Nye Lane, Carson City, Nevada 89703.

Required Supplementary Information - A schedule of funding progress is presented in the accompanying Required Supplementary Information (RSI).

D. Post-Retirement Insurance Benefits

Employees of the State, who meet the eligibility requirements for retirement as outlined in sections A through C of this note and at the time of retirement are covered or had dependents covered by any group insurance or medical and hospital service, have the option upon retirement to continue group insurance. NRS 287.023 establishes this benefit upon the retiree assuming the portion of the premium not covered by the State. The Public Employees' Benefits Program administers these insurance benefits. For the year ended June 30, 2003, there were 5,467 retirees covered at a cost of \$15,560,078 which represents 65% of total costs. The State allocates funds for payment of insurance benefits as a percentage of payroll. The cost of the employer contribution is recognized in the year the costs are charged. No unused fund is carried forward to the next fiscal year.

Note 10 - Risk Management

The State of Nevada established the Self-Insurance and Insurance Premiums funds in 1983 and 1979, respectively. Both funds are classified as internal service funds.

Interfund premiums are reported as quasi-external transactions of the funds. All State funds participate in the insurance program. Changes in the claims liabilities during the past two fiscal years were as follows (expressed in thousands):

	Self Insurance Fund	Insurance Premiums Fund
Balance, June 30, 2001	\$ 20,013	\$ 26,726
Claims and changes in estimates	128,430	20,656
Claim payments	(123,561)	(9,046)
Balance, June 30, 2002	24,882	38,336
Claims and changes in estimates	146,566	16,823
Claim payments	(151,096)	(8,379)
Balance June 30, 2003	\$ 20,352	\$ 46,780

These liabilities are recorded in accordance with GASB Statement No. 10. This statement requires that a liability for claims be reported if information received before the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. These liabilities include incremental claims adjustment costs. A reserve for losses has been established in both funds to account for these liabilities and is included in the liability section of the Statement of Net Assets.

There were no significant reductions in insurance coverage from the prior year for workers' compensation, general liability, automobile liability, or property and casualty.

There are several pending lawsuits or unresolved disputes involving the State or its representatives at June 30, 2003. The estimated liability for these claims has been factored into the calculation of the reserve for losses and loss adjustment expenses developed. There were no material settlements in excess of insurance coverage for each of the past three fiscal years.

A. Self-Insurance Fund

The Self-Insurance Fund administers the group health, life and disability insurance for covered employees, both active and retired, of the State and certain other participating public employers within the State. All public employers in the State are eligible to participate

in the activities of the Self-Insurance Fund and currently, in addition to the State, there are forty-seven public employers participating. The fund is overseen by the Public Employees' Benefit Program. The Board is composed of nine members: eight members appointed by the Governor, and the Director of the Department of Administration or his designee.

The Self-Insurance Fund contracts with a third-party administrator to pay the Self-Insurance Fund's claims and also contracts with medical providers to determine the price of services to be provided. The Self-Insurance Fund is self-insured for medical, dental and vision benefits and assumes all risk for claims incurred by plan participants. Fully insured HMO products are also offered. Accidental death and dismemberment, travel accident, long-term disability, mental health and substance abuse, and life insurance benefits are fully insured by outside carriers. The Self-Insurance Fund does not retain any risk of loss regarding those plans covered by independent insurance providers.

For the self-insured benefits, fund rate-setting policies have been established after consultation with the Self-Insurance Fund's actuary. Premiums are based upon anticipated claims in the upcoming year and any remaining fund equity available for claims. The participating employers pay monthly premiums for each employee and employees pay for dependent coverage. The participating public employers, with the exception of the State, are not subject to supplemental assessment in the event of deficiencies.

The management of the Self-Insurance Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Upon consultation with an actuary, claims liabilities are recomputed annually using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation, because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments

(Note 10 Continued)

to claims liabilities are charged or credited to expense in the periods in which claims are made.

B. Insurance Premiums Fund

The Insurance Premiums Fund provides self-insurance for general, civil (tort), and auto liabilities of State agencies, workers' compensation insurance for State employees and auto physical damage and property insurance for State agencies.

Under the retrospectively rated contracts with Employers Insurance Company of Nevada (EICON) for the workers' compensation portion of the Fund, each calendar year through 2000 is a separate plan subject to its own premium determinations based on the actual loss experience for that year, with contractually negotiated basic and maximum premiums. Each plan year is subject to five premium determinations, at which point, based on loss experience, there is either an amount due to or from EICON. The first determination is eight months after the close of the plan year, and annually thereafter. Each plan year may be closed at any determination if the Insurance Premiums Fund and EICON mutually agree; the cost to close a plan year includes a charge for incurred but not reported claims. Plan years 1999 and 2000 are still open as of June 30, 2003 and are subject to additional premiums based on the loss experience of the plan. Liabilities in the amount of \$3,468,188 as of June 30, 2003 have been accrued as an estimate for these potential additional premiums; however, the actual liability may be in excess of or less than the amount accrued, but under no circumstances will it exceed the contractually determined maximum premium. The maximum premiums are \$12,357,534 and \$12,711,971 for plan years 1999 and 2000 respectively. During the year ended June 30, 2003, \$2,265,749 was paid toward the outstanding amounts due to EICON based on the retrospective determination for plan years 1998, 1999 and 2000. For the period beginning January 1, 2001 and for each calendar year thereafter the Fund purchased a high deductible policy with loss retention of \$750,000, \$1,000,000 and \$2,000,000 per incident for calendar years 2001, 2002 and 2003 respectively. Liabilities in the amount of \$21,159,416 as of June 30, 2003 were determined using standard actuarial techniques as estimates for the incurred but not reported losses and allocated loss adjustment expenses under the plan.

The Fund is financed by the State. The State has a maximum exposure of \$50,000 for each general liability claim, with the exception of claims that are filed in other jurisdictions, namely, federal court. Those claims

filed in federal court are not subject to the limit. Per State statute, if, as the result of future general liability or catastrophic losses, fund resources are exhausted, coverage is first provided by the reserve for statutory contingency account and would then revert to the General Fund.

The Fund is also self-insured for comprehensive and collision loss to automobiles, self-insured to \$500,000 for property loss with commercial insurance purchased to cover the excess above these amounts, and commercially insured for losses to boilers and machinery and certain other risks. The fund also purchases excess liability insurance for claims in excess of \$1,000,000 with coverage up to a maximum of \$10,000,000 per incident.

At June 30, 2003, incurred but not reported claims liability for general, civil and auto insurance is based upon standard actuarial techniques, which take into account financial data, loss experience of other self-insurance programs and the insurance industry and from the development of known claims, estimates of the cost of reported claims, incurred but not reported claims, and allocated loss adjustment expenses. The incurred but not reported claims liability for property casualty insurance is based upon the estimated cost to replace damaged property. Incurred but not reported claims liabilities are included in the reserve for losses.

The Fund has sustained substantial operating losses in recent years. At June 30, 2003 total liabilities exceeded total assets by \$42,775,858. According to figures derived from actuarial estimates, the Fund is liable for approximately \$42,800,000 as of June 30, 2003 in potential claims settlements, which have yet to be funded through premium contributions. As Nevada Revised Statute 331.187 provides that if money in the Fund is insufficient to pay a tort claim, the claim is to be paid from the reserve for statutory contingency account, and, as management assesses premiums to cover current claims payments, management believes that this provides the opportunity for the Fund to satisfy these liabilities.

Note 11 - Fund Balances**A. Individual Fund Deficits****Enterprise Fund**

Nevada Magazine - The Nevada Magazine shows a decrease in net assets of \$293,517 for the fiscal year ended June 30, 2003, and continues to operate in a deficit situation showing net liabilities (negative net assets) of \$749,036 at June 30, 2003.

Internal Service Funds

Self-Insurance - The Self-Insurance Fund accounts for self-insured group life, accident and health insurance plans for State and other government employees. The fund recorded an increase in net assets of \$844,490 for the year ended June 30, 2003, resulting in net liabilities (negative net assets) of \$15,007,355 at June 30, 2003.

Insurance Premiums - The Insurance Premiums Fund allocates the cost of fidelity insurance, property insurance and workers' compensation insurance to State agencies. The fund recorded a decrease in net assets of \$10,239,611 for the year ended June 30, 2003, resulting in net liabilities (negative net assets) of \$42,775,858 at June 30, 2003.

Personnel - The Personnel Fund accounts for the cost of administering the State personnel system. The fund recorded a decrease in net assets of \$1,908,392 for the year ended June 30, 2003, resulting in net liabilities (negative net assets) of \$503,645 at June 30, 2003.

B. Governmental Fund Balances

Governmental fund balances, reserved for other at June 30, 2003, are explained as follows (expressed in thousands):

	General	State Highway	Other Governmental	Total
Fund balances, reserved for other:				
Reserved for prepaid items	\$ 40,903	\$ 5,831	\$ 41	\$ 46,775
Reserved for noncurrent receivables - notes	724	-	78	802
Reserved for fiscal emergency	-	-	9,057	9,057
Reserved for specific future allocations	-	-	1,532	1,532
Total fund balances, reserved for other	\$ 41,627	\$ 5,831	\$ 10,708	\$ 58,166

Note 12 - Principal Tax Revenues

The principal taxing authorities for the State of Nevada are the Nevada Tax Commission and the Nevada Gaming Commission.

The Nevada Tax Commission was created under NRS 360.010 and is the taxing and collecting authority for most non-gaming taxes.

The following are the primary tax revenues:

Sales and Use Taxes are imposed at a minimum rate of 6.5%, with local and county option up to an additional .75% on all taxable sales and taxable items of use. The State receives tax revenue of 2% of total sales with the balance distributed to local governmental entities and school districts.

Motor Vehicle Fuel Tax is levied at 23 cents per gallon on gasoline and gasohol sales. 17.65 cents of the tax goes to the State Highway Fund, the remainder to the counties.

Insurance Premium Tax is imposed at 3.5% on insurance premiums written in Nevada. A "Home Office Credit" is given to insurance companies with home or regional offices in Nevada, but not to exceed 80% of the taxes due.

Other Sources of tax revenues include: Business Tax, Cigarette Tax, Controlled Substance Tax, Estate Tax, Jet Fuel, Liquor Tax, Lodging Tax, Motor Carrier Fees, Motor Vehicle Registration Fees, Net Proceeds of Minerals Tax, Property Tax, Special Drug Manufacturing Tax, Short-Term Lessor Fees and Tire Tax.

The Nevada Gaming Commission was created under NRS 463.022 and is charged with collecting state gaming taxes and fees. The following sources account for gaming tax revenues:

Percentage Fees are the largest of several State levies on gaming. They are based upon gross revenue and are

(Note 12 Continued)

collected monthly. The fee is applied on a graduated basis at the following monthly rates:

Three percent of the first \$50,000 of gross revenue; four percent of the next \$84,000 of gross revenue; and six and one quarter percent of the gross revenue in excess of \$134,000.

Casino Entertainment Taxes are imposed at 10% of all amounts paid for admission, food, merchandise or refreshment, while the establishment is providing entertainment.

Flat Fee Collections are levied on the number of gambling games and slot machines operated. Licensees pay fees at variable rates on the number of gaming devices operated per quarter.

Other Sources of gaming tax revenues include: Annual State Slot Machine Taxes, Annual License Fees and Miscellaneous Collections, which consists of penalties and fines, manufacturer's, distributor's and slot route operator's fees, advance payments, race wire fees, pari-mutuel wagering tax and other nominal miscellaneous items.

Note 13 - Works of Art and Historical Treasures

The State possesses certain works of art, historical treasures and similar assets that are not included with the capital assets shown in Note 7. These collections are not capitalized by the State because they are:

- Held for public exhibition, education or research in furtherance of public service, rather than financial gain,
- Protected, kept unencumbered, cared for and preserved, and
- Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

As required by GASB Statement No. 34, a description of each noncapitalized collection held by the State follows.

Lost City Museum – The mission of the Lost City Museum is to study, preserve, and protect prehistoric Pueblo sites found in the Moapa Valley and adjacent areas and to interpret these sites through exhibits and public programs based at the museum facility. The collection consists of 80 historic and prehistoric Native American Baskets; about 40 historic Native American ceramic vessels and about 250 prehistoric ceramic vessels; and various prehistoric bone and shell archaeological objects. The collection also includes historic Euro-American and Native American leather objects; historic Euro-American and historic and prehistoric Native American textiles; glass and wood historic Euro-American objects; and stone prehistoric archaeological objects, some turquoise and lithic materials, and lapidary, mineral and fossil objects.

East Ely Railroad Depot Museum – The mission of the East Ely Railroad Depot Museum is to interpret and preserve eastern Nevada's industrial heritage. It is located on

Nevada's most significant historical industrial complex, the former site of the Nevada Northern Railroad, and its collections include extensive archival documents, including photographs on the railroad, mining and smelting history of eastern Nevada. Three-dimensional artifacts include about 1,000 objects including wooden patterns for locomotive parts and the historical furnishings of the depot building. The majority of the collections are two-dimensional artifacts, with photographs totaling 400 and documents totaling 9,600 cubic feet highlighted by payroll records from 1906 through 1983 covering the entire history of the railroad. There are also administrative, legal and operation records covering the same period. The map and drawing collection relating to railroads numbers 500 and is one of the finest in the western United States.

Nevada Historical Society – The mission of the Nevada Historical Society is to collect, preserve, interpret and research for educational and aesthetic purposes, the materials which represent the history of the State of Nevada. The Nevada Historical Society holds a large number of valuable collections relating to the history of Nevada, the Great Basin and the West. The bulk of the collections are used primarily for research. Most of the museum collections are also available for exhibition, and a limited number of artifacts are used in educational programs. The collections are divided into four sections: library, manuscripts, photography and museum. The library collections consist of purchased books (20,000 titles), journals and periodicals, state and federal documents, most of the state's newspapers in hardcopy and on microfilm, and ephemera. There are 3,500 collections in the manuscripts section, and some 500,000 images in the photography section. The museum section has about 8,000 objects.

(Note 13 Continued)

Nevada State Museum and Historical Society – The mission of the Nevada State Museum and Historical Society, Las Vegas, is to advance the understanding of the prehistory, history, anthropology and natural history of Nevada emphasizing southern Nevada and its relationship with the surrounding area by collecting, interpreting, exhibiting and preserving Nevada's heritage for present and future generations. The historical collections number over 12,000 and many reflect the major themes of the state-transportation, mining and tourism—as well as the artifacts of everyday life such as clothing, historical correspondence and business records. The archival photograph collection numbers around 40,000 images. The natural history collections include an emphasis on Lepidoptera (butterflies and moths) and number well over 100,000.

Nevada State Museum and Nevada State Railroad Museum – The mission of the Nevada State Museum is to engage diverse audiences in understanding and appreciating Nevada's natural and cultural heritage. The museum achieves this through collecting, documenting and studying objects and information significant to heritage. The museum preserves this heritage for long-term public benefits, and presents heritage to broad audiences through exhibits, educational programs, publications and research services. The museum optimizes its educational mission by cultivating effective partnerships and attaining high standards of public service. Collections are significant to the natural and cultural history of Nevada and the Great Basin region. The museum collects, preserves and documents three general types of collections: anthropology, history and natural history. The anthropology collection

includes 6,220 cubic feet of important western U.S. ethnographic and archaeological collections. Artifacts date as early as 9,400 years in age and include little-known technologies unique to the western Great Basin. Ethnographic collections feature 16 baskets woven by the internationally known Washoe weaver Louisa Key (a.k.a. Dat So La Lee). The collection also contains over 1,000 complete baskets and beadwork by other Washoe, Northern Paiute and Western Shoshone artisans. Archaeological materials include extensive collections of prehistoric artifacts from Nevada with materials recovered from dry caves of particular importance. The museum also serves as a repository for archaeological collections excavated in Nevada by public and private organizations and holds 1,700 cubic feet. History collections number 110,000 objects and encompass a wide variety of objects related to the material culture of Nevada and Great Basin such as clothing and textiles, historic photographs and documents, mining technology, gaming artifacts, vehicles, ranching and western memorabilia, ceramics, furniture and decorative arts. The Nevada State Railroad Museum's collections are currently managed by the Nevada State Museum and include 4,000 historical artifacts. Natural history collections number 94,600 specimens and include representative samples of flora and fauna from throughout Nevada. The butterfly, amphibian, reptile and bird collections are the most complete and easily accessed of such collections in the northern part of the state. The plant and mammal collections are the most complete and easily accessed of such collections statewide. Rocks and minerals document the state's geology and mining heritage.

Note 14 - Commitments and Contingencies**A. Primary Government**

Bonds - In 1977 and 1989 the State issued \$13,730,000 and \$14,755,000, respectively, in General Obligation Sewer Improvement Bonds for and on behalf of Clark County. To date, the bonds have been completely serviced by Clark County; however, the State remains contingently liable on the bonds through maturity on July 1, 2004. The amount of bonds outstanding at June 30, 2003, is \$3,990,000.

Lawsuits - The State Attorney General's Office reported that the State or its officers and employees were parties to numerous lawsuits, in addition to those described below. In view of the financial condition of the State, the

State Attorney General is of the opinion that the State's financial condition will not be materially affected by this litigation, based on information known at this time.

Several of the actions pending against the State are based upon the State's (or its agents') alleged negligence in which the State must be named as a party defendant. However, there is a statutory limit to the State's liability of \$50,000 per claim. Such limitation does not apply to federal actions such as civil rights actions under 42 U.S.C. Section 1983 brought under federal law or to actions in other states. Tort claims are handled in accordance with NRS 41.

(Note 14 Continued)

The State is a party to a number of lawsuits filed under the federal civil rights statutes. However, the State is statutorily required to indemnify its officers and employees held liable in damages for acts or omissions on the part of its officers and employees occurring in the course of their public employment. Several claims may thus be filed against the State based on alleged civil rights violations by its officers and employees. Since the statutory limit of liability (discussed above) does not apply in federal civil rights cases, the potential liability of the State is not ascertainable at the present time. Currently, the State is involved in several actions alleging federal civil rights violations that could result in substantial liability to the State.

PERS - The Public Employees' Retirement System (PERS) has entered into investment funding commitments as of June 30, 2003. For alternative investments, PERS has committed to fund \$410.5 million at some future date. Alternative investments consist of acquisitions, industry consolidations, subordinated debt instruments, special situations, and venture capital.

PERS is a defendant in litigation involving individual benefit payments and participant eligibility issues arising from its normal activities. Based upon consultation with legal counsel, management believes there will be no material adverse effect on the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets as a result of the ultimate outcome of these matters.

Leases - The State is obligated by leases for buildings and equipment accounted for as operating leases. Operating leases do not give rise to property rights as capital leases do. Therefore, the results of the lease agreements are not reflected in the Statement of Net Assets. Primary Government lease expense for the year ended June 30, 2003 amounted to \$25,465,376. The following is the primary government's schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2003 (expressed in thousands):

For the Year Ended June 30	Amount
2004	\$ 20,575
2005	17,499
2006	12,508
2007	5,916
2008	4,296
2009-2013	4,269
Total	\$ 65,063

Federal Grants - The State receives significant financial assistance from the federal government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by federal agencies. Any disallowance as a result of these audits could become a liability of the State. As of June 30, 2003, the State is unable to estimate the amount, if any, of expenditures that may be disallowed, although the State expects such amounts, if any, to be immaterial.

Rebate Arbitrage - The Tax Reform Act of 1986 imposes a rebate requirement with respect to some bonds issued by the State. Under this requirement, an amount equal to the sum of (a) the excess of the aggregate amount earned on all investments (other than certain specified exceptions) over the amount that would have been earned if all investments were invested at a rate equal to the yield on the bonds, and (b) any income earned on the excess described in (a), is required to be rebated to the U.S. Treasury, in order for the interest on the bonds to be excluded from gross income for federal income tax purposes. Rebateable arbitrage is computed as of each installment computation date. The present value of the rebateable arbitrage has been recorded as a liability in the Statement of Net Assets at June 30, 2003. Future calculations might result in different rebateable arbitrage amounts.

Construction commitments - As of June 30, 2003, the Nevada Department of Transportation had total contractual commitments of approximately \$120 million for construction of various highway projects. Other major non-highway construction commitments for the primary government's budgeted capital projects funds total \$3.5 million.

B. Discretely Presented Component Units

University System - As of June 30, 2003, the University and Community College System of Nevada (UCCSN), a component unit, had entered into various investment agreements with private equity partnerships. Under the terms of certain of these investment agreements, UCCSN is obligated to make additional investments in these private equity partnerships of \$16,597,000.

UCCSN is a defendant or co-defendant in legal actions. Based on present knowledge and advice of legal counsel, UCCSN management believes any ultimate liability in

(Note 14 Continued)

these matters, in excess of insurance coverage, will not materially affect the net assets, changes in net assets or cash flows of the UCCSN.

Colorado River Commission - The management of the Colorado River Commission (CRC), estimates that construction in progress will require an additional outlay of approximately \$5,000,000 to bring the related projects to completion.

The CRC has entered into forward contracts to purchase electrical power at a specified time at a guaranteed price. The CRC enters into these contracts to help plan power costs for the year and to protect itself against an increase in market prices. It is possible that the market price before or at the specified time to purchase electrical power may be lower than the price at which the CRC is committed to buy. This would reduce the value of the contract. The CRC could sell the forward contract at a loss, or if it were to continue to hold the contract, the CRC may make a termination payment to the counterparty to cancel its obligation under the contract and then buy electrical power on the open market. The CRC is also exposed to the failure of the counterparty to fulfill the contract. The terms of the

contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should the CRC have to procure electrical power on the open market. One of the counterparties has filed for bankruptcy under Chapter 11. The effects of the bankruptcy on the counterparty's ability to fulfill its contracts cannot be determined.

All of the CRC's power customers are contractually obligated for electrical power purchased or sold on their behalf by the CRC. The customers may either pay or receive contract payments directly, or reimburse or be reimbursed by the CRC. These contracts are generally "take or pay" contracts, meaning that the customer is required to make or receive payment regardless of whether or not the power is actually delivered. One of the CRC's power customers has also filed Chapter 11 and, based upon the plan of reorganization and the customer's explicit and publicly declared intention, it appears likely that the customer will contest its forward contracts with the CRC. Although the failure on the part of the customer to honor its contracts could result in a loss to the CRC of approximately \$100,000,000, it is not currently possible to determine the outcome of this contingency.

Note 15 - Subsequent Events

Primary Government

Bonds - The following bonds were sold after June 30, 2003:

General Obligation Bonds - \$134,470,000 Series July 1, 2003, C, D, E and F General Obligation (Limited Tax) Bonds: Series 2003C are \$21,515,000 Water Refunding Bonds (Revenue Supported), due in annual installments ranging from \$155,000 to \$3,900,000 through July 1, 2011, plus semi-annual interest payments, at rates from 2.50% to 5.00%. Interest payments on the bonds are payable January 1 and July 1, commencing January 1, 2004. Series 2003D are \$20,435,000 University System Refunding Bonds (Revenue Supported), due in annual installments ranging from \$2,145,000 to \$3,390,000 through August 1, 2010, plus semi-annual interest payments, at rates from 2.00% to 3.75%. Interest payments on the bonds are payable February 1 and August 1, commencing February 1, 2004. Series 2003E are \$61,210,000 Open Space, Parks and Cultural Resources Bonds, due in annual installments ranging from \$1,550,000 to \$5,075,000

through June 1, 2021, plus semi-annual interest payments, at rates from 3.00% to 5.00%. Interest payments on the bonds are payable June 1 and December 1, commencing December 1, 2003. Series 2003F are \$31,310,000 Open Space, Parks and Natural Resources Bonds, due in annual installments ranging from \$670,000 to \$2,200,000 through June 1, 2021, plus semi-annual interest payments, at rates from 2.00% to 5.00%. Interest payments on the bonds are payable June 1 and December 1, commencing December 1, 2003. The Series 2003C and 2003D Bonds will not be subject to redemption prior to maturity. The Series 2003E and Series 2003F Bonds maturing on and after June 1, 2014 will be subject to optional redemption on and after June 1, 2013. The Series 2003F Bonds maturing on June 1, 2023 will be subject to mandatory redemption prior to maturity from sinking fund payments on and after June 1, 2022. The Series 2003D and 2003E Bonds are subject to the Constitutional Debt Limit.

\$112,180,000 Series October 1, 2003, A and B General Obligation (Limited Tax) Bonds: Series 2003A are

(Note 15 Continued)

\$92,380,000 Capital Improvement, Cultural Affairs and Refunding Bonds, due in annual installments ranging from \$3,570,000 to \$7,190,000 through August 1, 2022, plus semi-annual interest payments, at rates from 4.75% to 5.00%. Interest payments on the bonds are payable February 1 and August 1, commencing February 1, 2004. Series 2003B are \$19,800,000 Natural Resources and Refunding Bonds, due in annual installments ranging from \$480,000 to \$2,165,000 through August 1, 2023, plus semi-annual interest payments, at rates from 3.00% to 4.75%. Interest payments on the bonds are payable February 1 and August 1, commencing February 1, 2004. The Series 2003A and Series 2003B Bonds maturing on and after August 1, 2014 will be subject to optional redemption prior to maturity. The Series 2003A Bonds are subject to the Constitutional Debt Limit.

\$104,930,000 Series 2003, G, H, I and J General Obligation (Limited Tax) Bonds: Series 2003G are \$2,665,000 Water Pollution Control Revolving Fund Matching Bonds, due in annual installments ranging from \$235,000 to \$315,000 through August 1, 2013, plus semi-annual interest payments, at rates from 2.00% to 4.00%. Interest payments on the bonds are payable February 1 and August 1, commencing February 1, 2004. Series 2003H are \$63,500,000 Water Pollution Control Revolving Fund Leveraged Bonds, due in annual installments ranging from \$2,450,000 to \$5,165,000, plus semi-annual interest payments, at rates from 3.00% to 5.00%. Interest payments on the bonds are payable February 1 and August 1, commencing February 1, 2004. Series 2003I are \$35,465,000 Nevada Municipal Bond Bank Project Bonds, due in annual installments ranging from \$540,000 to \$3,845,000, plus semi-annual interest payments, at rates from 3.00% to 5.00%. Interest payments on the bonds are payable May 1 and November 1, commencing May 1, 2004. Series 2003J are \$3,300,000 Safe Drinking Water Act Revolving Fund Matching Bonds, due

in annual installments ranging from \$180,000 to \$285,000, plus semi-annual interest payments, at rates from 2.00% to 4.25%. Interest payments on the bonds are payable February 1 and August 1, commencing February 1, 2004. The 2003G Bonds will not be subject to redemption prior to maturity. The Series 2003H and 2003J Bonds maturing on and after August 1, 2014 will be subject to optional redemption prior to maturity. The 2003I Bonds maturing on and after November 1, 2014 will be subject to optional redemption prior to maturity.

Revenue Bonds - \$176,435,000 Series July 1, 2003 Highway Improvement Revenue (Motor Vehicle Fuel Tax) Bonds. The Bonds are due in annual installments ranging from \$12,855,000 to \$20,285,000, plus semi-annual interest payments, at rates from 5.00% to 6.00%. Interest payments on the bonds are payable June 1 and December 1, commencing December 1, 2003. The bonds are not subject to optional redemption before maturity.

Legislative Counsel Bureau - During the 2003 Legislative Session, through Senate Bill No. 504, the State Printing Division of the Department of Administration, with an annual budget of approximately \$3.5 million, was transferred to the Legislative Counsel Bureau, effective July 1, 2003. All debt of the State Printing Division of the Department of Administration to the State General Fund and any other state fund or entity was forgiven, and a new division was created by the Legislative Counsel Bureau to monitor the activities of the Printing Division.

Discretely Presented Component Unit

Colorado River Commission - On September 2, 2003, the Commission entered into a termination agreement with Williams Power Company, Inc. (Williams) to terminate all forward energy purchase contracts (Contracts) with Williams. As consideration for the early termination of the Contracts, the Commission paid Williams \$13,121,600, to be charged against payable to customers.